

FINANCIAL

STRATEGY

Introduction

The financial strategy is both an overall direction for the financial side of the Long-term Plan and a synthesis of the financial issues and consequences of council policies and service delivery decisions. It tells our community what will be provided and how much it will cost, taking into account pressures and demands from competing wants and needs of the community. In planning its business, the council must undertake a balancing act of delivering services while keeping the funding required affordable, ensuring equity between current and future generations, fairly sharing the costs of delivering these services across different users and maintaining a strong balance sheet.

This financial strategy brings together important information in the Long-term Plan to highlight the much greater focus on and commitment to growing the Rotorua economy. The first three years of the 2012-2022 period will provide funding and resources that ensure Council makes its very best possible contribution to assisting with the district's economic growth. The performance framework for groups of activities sets out the specific measures and targets to help grow the Rotorua economy faster than otherwise would be the case. Once the district's economy improves, estimated to be in 2015, there can be a shift in focus to debt repayment and greater emphasis on community development.

The Local Government Act was amended in 2010 and now provides a hierarchy to the planning requirements for the Long-term Plan at four levels, these being prudent financial management, strategic approach to financial planning, the need for a balanced budget (i.e. operating revenue matches operating expenditure), and funding and financial policies.

The diagram below shows the relationships in summary form for each of the four levels.

Section 101 – Financial management

A requirement to manage finances prudently and in a way that promotes the current and future interest of the community.

Section 101A – Financial strategy

A requirement to adopt a financial strategy that informs and guides the assessment of funding and expenditure proposals.

Section 100 – Balanced budget requirement

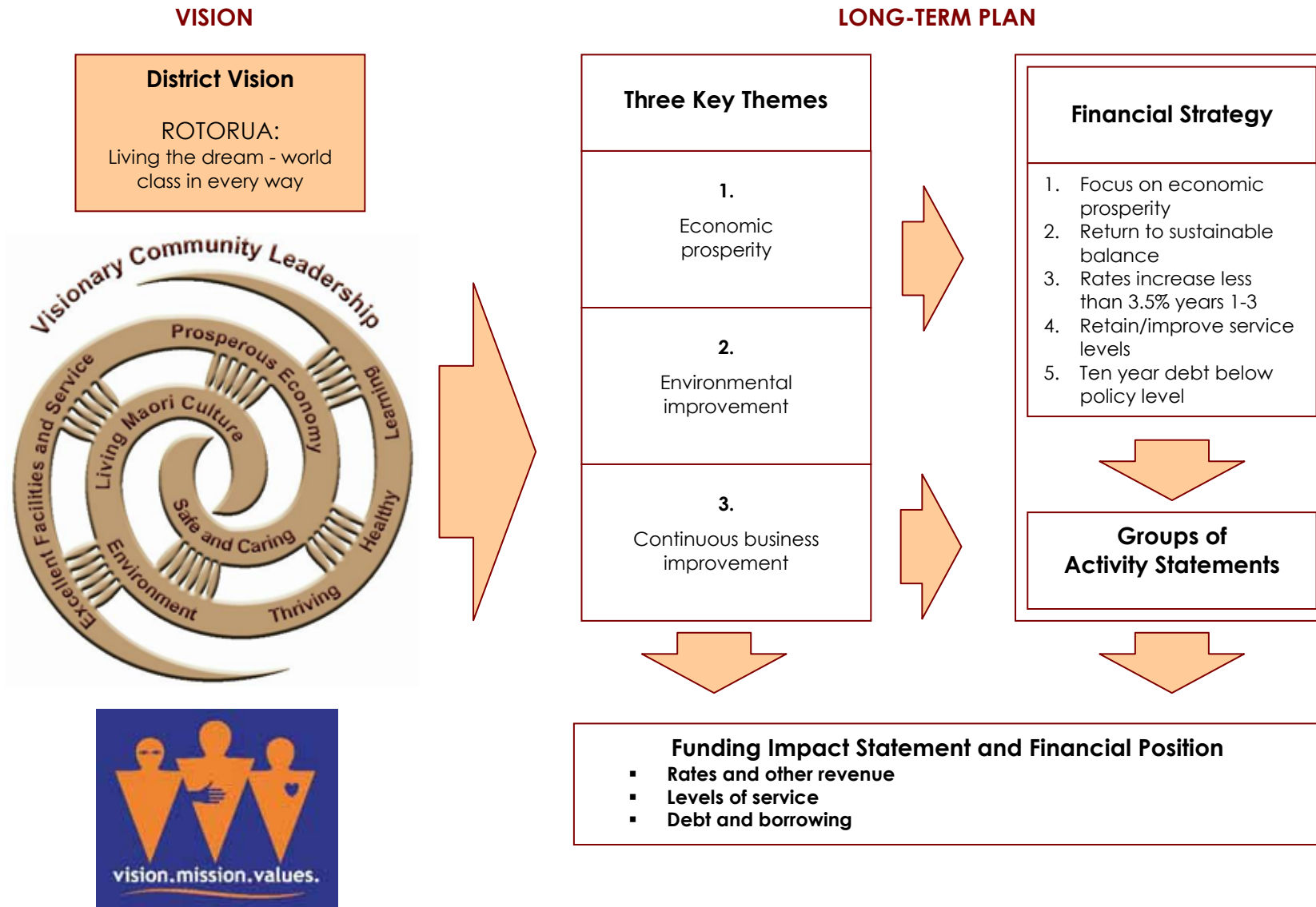
Operating revenues must be set at a level sufficient to meet operating expenses, unless prudent not to.

Section 102 – Funding and financial policies

A requirement to adopt a set of funding and financial policies to provide predictability and certainty about sources and levels of funding.

Developing this financial strategy has been an evolving process that acknowledges the need for effective cost controls to achieve low rates increases (i.e. less than 3.5% for years 1-3), managing debt in a prudent financial manner, preserving levels of service and a very real focus on economic growth in the Rotorua district.

This diagram shows the financial strategy in the context of the full Long-term Plan and relationships to the district vision, council community outcomes and RDC vision, mission and values.

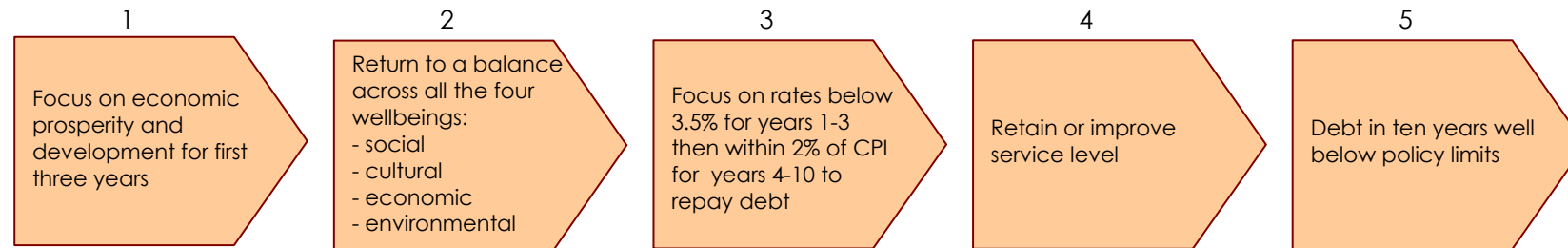


The long-term financial goal

The long term financial goal is to achieve Council's aspirations identified in the Long-term Plan in a prudent manner, using Council's financial management principles to promote the current and future interests of the community. These aspirations fall under the headings of "*the 5 drivers of financial management*"

Council understands its role is to improve the prosperity of those who live, work, play and invest in our district. To be successful in that role Council needs to ensure it is making its optimum contribution to economic growth; continuing to promote protection and enhancement of the environment; is easy to do business with and has a continuous improvement approach to productivity.

The 5 drivers of financial management



District financial outlook

The recently adopted Rotorua Sustainable Economic Growth Strategy noted that Rotorua's "... economy has become more diverse over the past decade. However the district's economic performance has been languishing". Between 2009 and 2010:

- Rotorua GDP fell by 1%, compared to a national fall of 0.4% (ranking Rotorua 44th out of the 72 territorial local authorities or TLAs).
- Agriculture grew by 0.6% compared to national growth of 2.4%.
- Tourism accommodation declined by 3.1% compared to the national fall of 1.5%, and estimated tourism sector production declined by 2.8% compared to the national fall of 1.9%.
- Transport and logistics production fell by 11.2% compared to the national fall of 6.2%.
- Machinery and equipment manufacturing declined by 19.5% compared to the national fall of 16.3%.

Notably, employment growth fell by 3.8% against the national fall of 2.5% (ranking it 63 out of 72 TLAs). Also, while estimated district population grew by 0.6% to 68,600 in 2010, New Zealand's population grew by 1.2% over the same period.

Financial strategy basic principles

The principles used to develop the financial strategy are:

- Today's ratepayers will pay a fair contribution to the cost of infrastructure and services.
- Costs associated with growth should be funded by the incoming growth community.
- User charges will be applied as much as practicable and affordable where an identified benefit exists.
- Council will borrow to fund large intergenerational capital projects to smooth the cost of major items of expenditure.
- Council will endeavour to partner with philanthropists/funding agencies/local businesses through the Rotorua Partner Programme to part fund major capital projects.
- Council will continue its approach towards the beneficial development of shared services with other local authorities where the outcomes are similar and there is benefit to the ratepayer.
- Council will only fund depreciation to the level of renewals. This alleviates the need to build unnecessary cash reserves which would be necessary if the full cost of depreciation was to be funded.
- Council will continue to encourage economic growth within the district by including incentives for developments where necessary (subsidised development contribution levies in the CBD).
- Allocation of funding is based on Council's funding policy which sets the level an activity is funded by rates.
- Uniform charging (within legislative limits) is applied to properties where activities have a similar benefit.
- A system of differential rating and targeted rating is applied to allocate assessed benefits of some activities to different sector groups.
- A portion of the rate requirement is considered to be a tax on capital value and as such will fluctuate with property value movements.

A more stable rating system

The decision to change our rating system has been prompted by major shifts in official property valuations across the district. These have resulted in distortions to our current rating framework. While this will produce a favourable swing downwards in rates for the farming sector it will result in sizeable upward increases for other ratepayers.

A summary of the valuation movements for each category of property for 2011 since 2008 is set out below:

Property Category	Capital Value Change (2008-2011)	Land Value Change (2008-2011)
Residential	-8%	-6%
Commercial	-14%	-14%
Industrial	-5%	-9%
Lifestyle	-6%	-9%
Dairy Farms	-32%	-38%
Pastoral Farms	-37%	-38%

In examining options the council endeavoured to ensure the rating framework remains stable enough to minimise the need for adjustments every three years, to compensate for the valuation impacts.

Council is making the following changes:

- Change from a land value to capital value system.
- Remove all general rate differentials with exceptions being to apply a:
 - 85% differential to Rural Residential properties
 - 220% differential to Business properties
 - These exceptions are envisaged to be temporary to assist with transition in the longer term to an undifferentiated rating system.
- Merge targeted rates for Rooding and Stormwater & Drainage back into the General rate.
- Change the way the Business and Economic Development Targeted rate is allocated across the three targeted sectors to 80% business, 10% industrial, 10% farming.
- Replace the Business and Economic Development variable targeted rate from the home-based short term accommodation (B&B) sector with a stepped fixed charge based on the number of rooms let.
- Remove rating apportionments (parts) for those properties where the minor part has not been created for the purposes of assessing rates for a higher rated use e.g. motels with a minor residential part.
- Clarified holiday homes will be rated as residential so long as not let for more than 100 days per annum. Beyond this will be considered to be principally business use.
- Merge all rural water supplies with the urban supply in a single targeted rate (excluding the two predominantly farm supplies of Kaharoa and Reporoa).

Changes to the water targeted rates may allow Council to reduce the rural residential differential (proposed at 0.85%) more quickly than the business differential.

Changing how we treat rural water supplies

Each of the district's eight water supplies (Urban, Mamaku, Rotoiti, Rotoma, Kaharoa, Reporoa, Hamurana and Okareka) has operated as a stand-alone cost centre. This means the revenue from targeted rates and development contributions from users within a designated water supply area was used to fund costs generated from that particular water supply. There was no cross-subsidisation between supplies, or from other council activities.

Physical changes have been made to several supplies over time meaning that separation became blurred. Okareka was connected to the Eastern bulk supply, and Kaharoa and Hamurana shared the same primary pumps and reservoir.

These changes, including all supplies meeting strict water standards has meant that what was once quite different levels of service for many supplies are now the same.

Financial forecasts highlighted the fact that for all rural water supplies, the level of targeted rates fell well short of matching operating expenditure – clearly an unsustainable situation. It is not possible to reduce the operating expenditure while maintaining levels of service, and therefore the forecasts revealed a requirement for very large targeted rates increases over the next five years to remedy this situation.

Reducing expenditure could have exposed smaller schemes to higher levels of risk, as the cost of non-urgent maintenance and carrying standby infrastructure is too great.

Therefore the only option for preventing major increases (such as Mamaku for example requiring 20% increases per annum for five years) has been to aggregate the operational costs of all water schemes across the district. This will mean an extra \$6 charge per property per year to urban ratepayers but will provide a stable operational charge across the district. This is the same approach that Council applies to waste water operational costs where sewerage schemes are equalised. Any new water schemes would be required to separately fund the initial capital cost as is the case with new sewerage schemes.

In setting the new water targeted rate Council has been mindful of:

- Setting similar charges for similar levels of service.
- The need to set variable (per m³) rates at a level which encourages water conservation.
- Eliminating differences in water charges (per m³) between residential metered consumers and commercial/industrial consumers.
- Avoiding large increases for individual consumers.

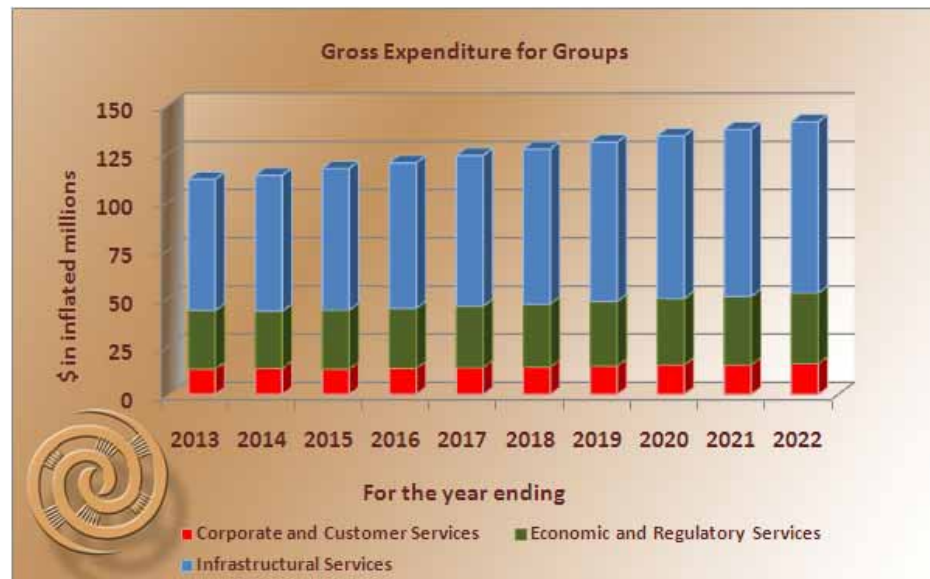
Funding the activities – what will it all cost?

Operating Expenditure

The Council is forecasting that operating expenditure will increase from \$112.8 million to \$143.1 million (or approximately 26.8%) between July 2012 and June 2022. These increases are a result of:

- Price increases – contract fees, oil prices, insurance and general cost inflation all mean it will cost more to conduct business
- Service level increases – the council will be providing a higher level of service in some areas
- Growth – there will be more households in the district (see growth assumptions section for more detail)
- Depreciation (renewals) and interest payment costs changing
- Levels of debt funding and interest paid on debt.

The following graph provides a breakdown of forecast gross operational expenditure, by activity group.



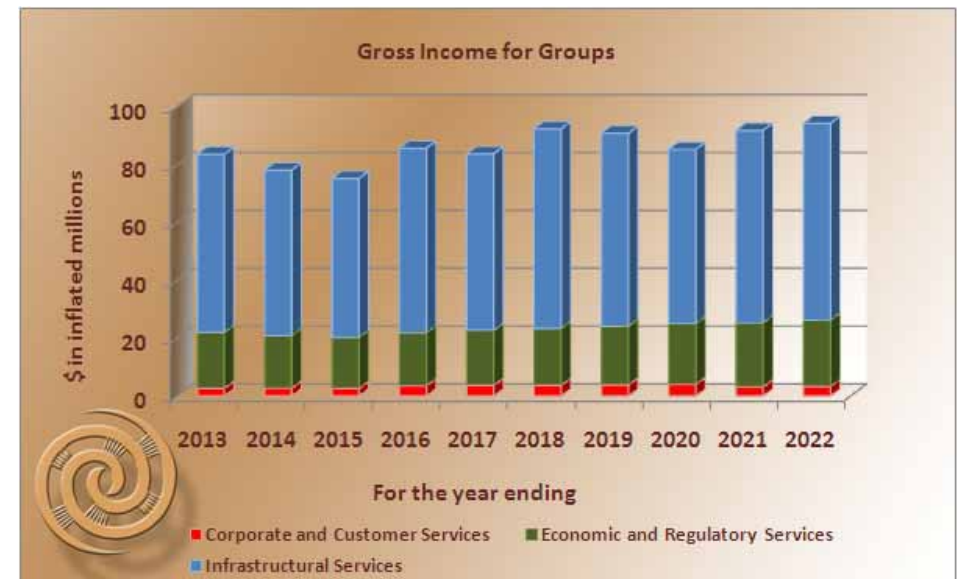
Castlecorp expenditure has not been shown as it is included within the groups to which it provides services.

Revenue

Council's revenue is forecast to increase from \$129.5 million to \$159.6 million (or approximately 23.3%) between July 2012 and June 2022. These increases are the result of:

- Rating revenue - annual increases in general and targeted rates, including new targeted rate revenue such as new wastewater schemes being developed
- Fees and charges - increases for some council services
- Grants, subsidies and donations - provided by external agencies or bodies for projects
- Growth - in visitor and resident use of services

The following graph provides a breakdown of the forecast gross income by activity group.



Castlecorp income has not been shown as it is included within the groups to which it provides services.

Surplus

Descriptions	2010/11 Actual (\$000)	2011/12 Annual Plan (\$000)	2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)	2017/18 (\$000)	2018/19 (\$000)	2019/20 (\$000)	2020/21 (\$000)	2021/22 (\$000)
Total Revenue	117,914	125,121	129,500	126,667	125,184	137,288	137,042	148,082	149,073	145,637	154,786	159,629
Total Expenditure	110,259	109,895	112,803	114,909	118,351	121,364	125,260	128,626	132,185	135,518	138,875	143,058
Surplus (Excludes revaluation)	7,655	15,226	16,697	11,758	6,833	15,924	11,782	19,456	16,888	10,119	15,911	16,571

Capital Expenditure

Over the next ten years Council is forecasting to spend \$432.1 million on capital expenditure. Of this, \$200.5 million is for ongoing renewal of assets. Renewals are those parts of infrastructure that need replacement from time to time and are effectively expenditure to ensure the infrastructure can continue providing levels of service as in the past. This expenditure is required to address normal wear and tear on infrastructural assets (e.g. roading reseals). There is a sound understanding of component assets and their economic lives, so it is reasonably straightforward to plan and budget for their replacement. Detailed information on the management of Council's key assets is included in asset management plans.

\$106.0 million has been budgeted for growth related expenditure. Expenditure on growth assets is to provide for increased demand beyond the assets' current capacity, and \$14.2 million is to be funded from development contributions. Council borrows to fund capital expenditure and over time recovers the cost from developers. Council has been conservative in this Long-term Plan about how long it will take to recover development contributions from developers. The existing low levels of development contribution funding are being maintained for the next five years before gradually increasing. These forecasts will mean the council's debt will remain higher for a longer period.

Backlog expenditure is required to return infrastructural capacity back to previous service levels. \$34.4 million in expenditure is forecast through the term of the Long-term Plan. Council sometimes holds back required renewals where major developments are planned in the near future. In this way the projects can be undertaken at the same time. The major projects attributed to backlog over the next ten years are largely rural sewerage schemes and Victoria Street Arterial. Minor works in stormwater upgrades, public gardens and urban water supply upgrades account for the remaining.

\$91.1 million is allocated to levels of service for other assets and is funded primarily by loans. Council has been careful to balance the wants of our community with expectation to keep rates increases low. The key level of

service projects are identified in following section 'The challenges ahead in delivery of services'.

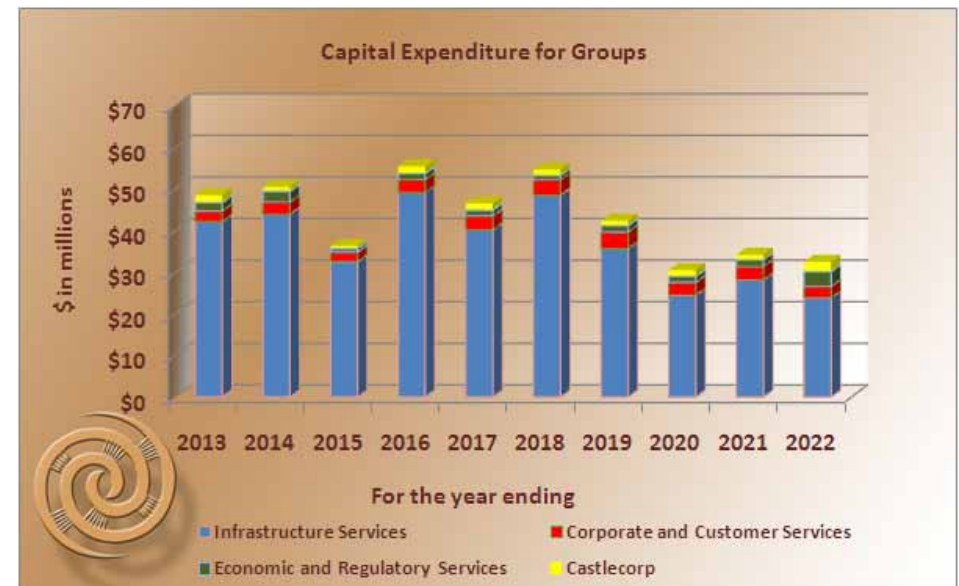
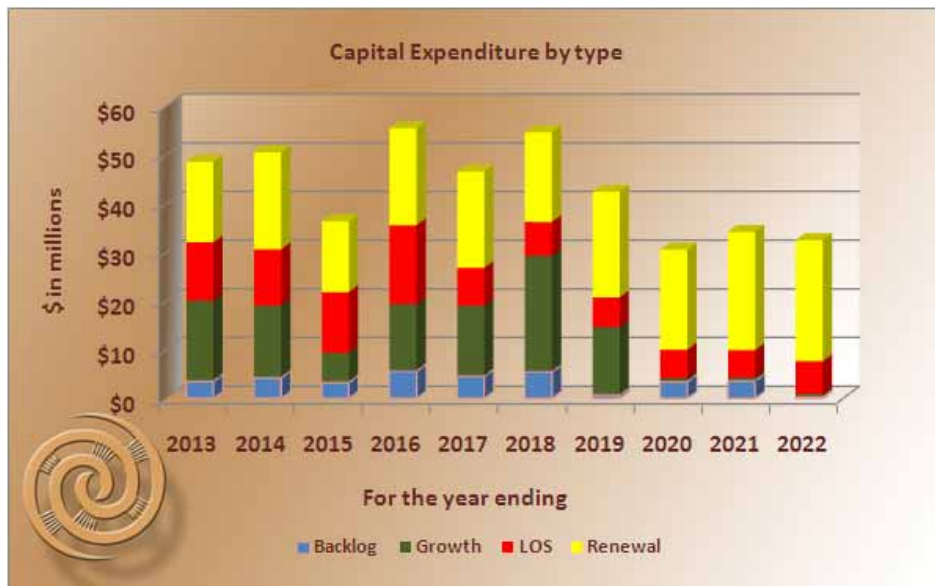
Council has a capital expenditure programme of some \$432 million, including inflation, over the next ten years. This capital expenditure is analysed into four categories which determine how the expenditure will be funded. The table below helps to explain how the expenditure is categorised and then sets out a funding source.

Capital expenditure categories	Funding source
Level of service To raise the current level of service associated with the asset	Debt This funding source ensures that current and future generations receiving the benefit of the service both make a contribution to the costs of capital expenditure – this is intergeneration benefit and allocation
Growth To provide excess network capacity that will provide for forecast growth in demand	Development contributions These levies are a charge to the developer to ensure ratepayers do not fund the increased capacity required in a network from this type of expenditure.
Renewals To replace assets that are at the end of their economic lives requiring renewal to ensure the service can continue to be provided at the same level	Rates, including general and targeted This expenditure is a similar amount each year of about \$14 million. There is a correlation between renewals and depreciation. It is therefore reasonable to expect ratepayers to fund each year's renewal programme directly from rates.
Backlog Some renewal expenditure will take place after the network has reached its capacity and in the interim there is a level of service reduction	Debt Backlog expenditure is treated similar to that of level of service expenditure and borrowings are used to fund the expenditure.

Note: Many capital projects have all four capital expenditure categories and hence multiple funding sources.

Capital expenditure by type (inflated)

	2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)	2017/18 (\$000)	2018/19 (\$000)	2019/20 (\$000)	2020/21 (\$000)	2021/22 (\$000)	Totals (\$000)
Backlog	3,493	4,213	3,250	5,573	4,530	5,462	663	3,436	3,569	246	34,435
Growth	16,598	14,881	6,128	13,793	14,494	23,858	14,056	763	792	677	106,040
LOS	11,962	11,542	12,472	16,228	7,790	6,932	6,027	5,822	5,557	6,728	91,060
Renewal	16,529	19,933	14,509	19,904	19,789	18,442	21,677	20,566	24,301	24,864	200,516
Grand Total	48,582	50,570	36,358	55,498	46,603	54,695	42,424	30,587	34,220	32,514	432,051



The challenges ahead in delivery of services

A number of factors are expected to impact on the council's management of business and its finances over the 2012-2022 period. These are outlined below.

The economic climate

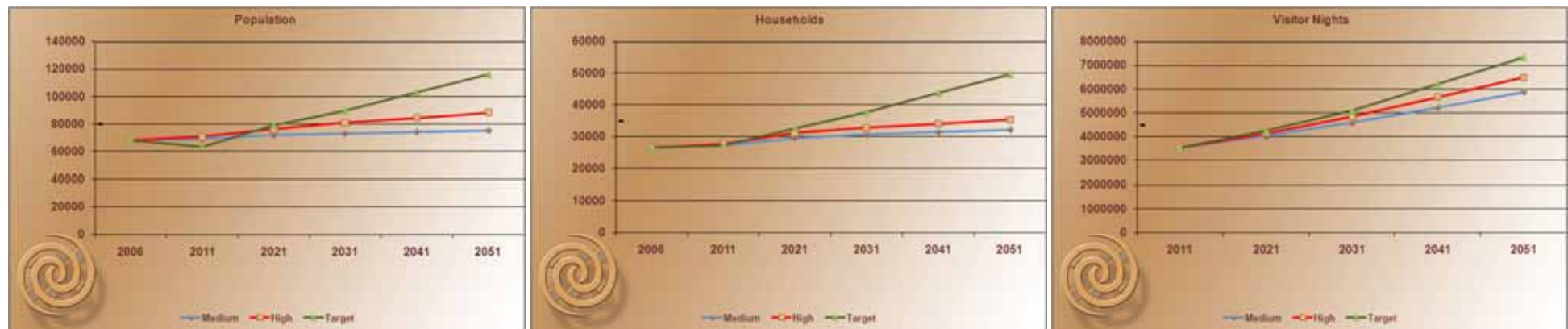
While the medium to long-term outlook for the New Zealand economy is positive, recovery of the domestic economy over the coming years will continue to be moderated by the lasting impact of the Global Financial Crisis (GFC) and the subsequent European Sovereign debt issues.

Growth - population

In order to inform future planning, growth assumptions have been developed identifying a number of growth scenarios. Council believes that it needs to be proactive in its assessment of growth to investigate strategic level implications, and view the consequences for future land use planning and asset management.

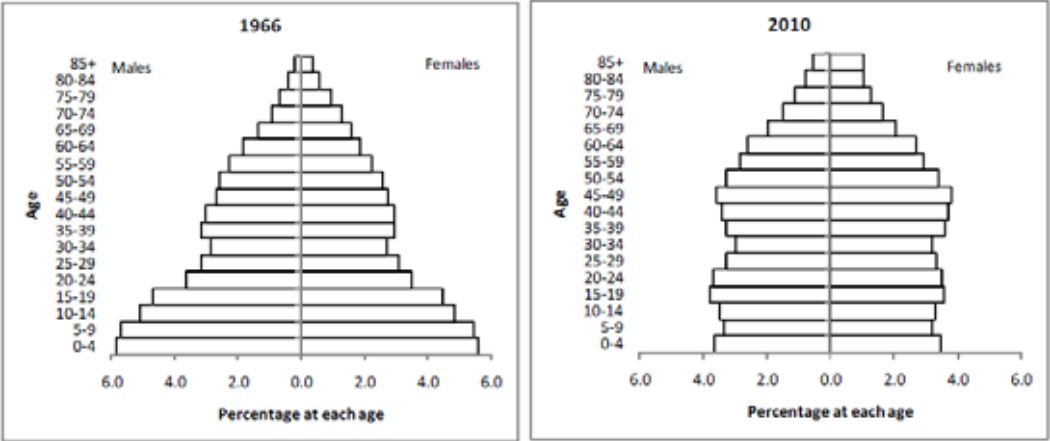
Rotorua District Council's growth model makes growth assumptions for the district through to 2051. The assumptions identify three key parameters: population, households (represented as household equivalent units - HUEs), and visitor nights.

The growth assumptions are not for the purpose of setting growth targets, nor are they assumptions that seek to promote growth. The assumptions have been developed in order to ensure that there is sufficient infrastructure provided for managing increases in population and visitors over the next 10, 20 and 40 year periods, and ensuring that there is sufficient zoned land to enable projected growth to occur. Council has decided to take the cautious approach to planning for growth in the wake of the economic crisis and natural disasters such as the Christchurch earthquake. To this end the medium forecast for growth has been used for modelling of project expenditure and needs assessments for capital investment.

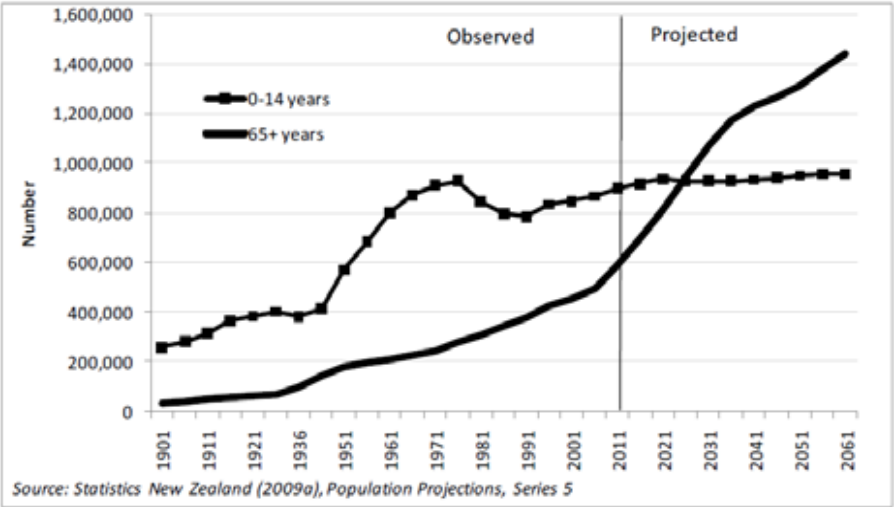


The district's population growth is forecast to be very low over this Long-term Plan period (4% increase in ten years, i.e. 2,622 people).

A trend within this overall population change is the increasing ageing population as baby boomers move into retirement. Rotorua also has a high percentage of population in the 15 to 24 age category. This category is likely to diminish over time as young people move out of Rotorua to attend tertiary education, travel and move to larger cities for work.



Source: Statistics New Zealand (various years), National Population Estimates



Source: Statistics New Zealand (2009a), Population Projections, Series 5

Land use changes

Council is progressing with its review of the District Plan with the intention of more effectively supporting and enabling development in the district. Structure plans developed for the eastern and western areas around Lake Rotorua have been incorporated into the District Plan and ongoing development of sewerage schemes provide for sustainable growth around Lake Rotorua, Okareka, Rotoehu and Rotoma.

Growth assumptions have been developed for a medium population forecast, an additional 2,968 HUEs for 2011-2021 and 4,669 HUEs for 2021-2051, and for a high population forecast 4,123 HUEs for 2011-2021 and 6,758 HUEs for 2021-2051. These growth assumptions provide the basis of the Rotorua Sustainable Economic Growth Strategy, the Draft District Plan, Long-term Plan and Spatial Plan for the Rotorua district. Infrastructure investment (growth) has been set to support different levels of increase for a number of planning units in the district.

The following shows the additional Household Unit Equivalents (HUEs) based on a medium population forecast for the periods 2011-2021, 2021-2031, and 2031-2051. The total additional HUEs for households for the 2011-2051 period is also shown.

	Total HUE 2011-2021	Total HUE 2021-2031	Total HUE 2031-2051	Total HUE 2011-2051
City	889	625	1,125	2,639
Eastern	1,143	338	383	1,864
Eastern Lakes	169	93	174	436
Hamurana	147	142	367	656
Lakeside settlements	136	65	124	325
Ngongotaha	162	132	257	551
Northern	100	112	154	366
Rotokawa	66	68	119	253
Rural	157	144	249	550
Total	2,969	1,719	2,952	7,640

HUE = household unit equivalent. Three factors, population, households and visitors nights, represent a HUE.

Generally any expenditure required to cater for growth would be funded by development contributions.

Urban water supply

Council will spend almost \$60 million on capital projects for the urban water supply which includes renewal of the existing structure, increasing level of service and providing capacity for future growth and development. Council infrastructure is a very important part of ensuring Rotorua district has sufficient capacity for new investment.

Maintaining levels of service and meeting additional demands

Council will generally maintain current levels of services, except where there is already a commitment to change a level of service, or a commitment to build new facilities. These development commitments include:

- A number of roading projects that are a combination of providing for district growth and improvement in levels of service. They are: Victoria Street Arterial, Lake Road four-laning and \$1.1 million of rural seal extensions per year.
- Sewerage schemes for lakeside communities Mamaku and Reporoa
- Substantially upgrading some parts of the urban stormwater system to address deferred expenditure. This will provide an improvement in the level of service for a number of areas of the city.
- A number of new public toilets in reserves that do not currently have toilets.
- Economic Development is allocated additional funding in 2012/13 for attracting inwards investment and wealth creation initiatives, and CBD revitalisation and Lakefront development integration.
- Four new suburban skate parks (two already opened in 2010/11, one in 2012/13 and one in 2014/15).
- Aquatic centre developments.
- Rawhiti Street pensioner unit replacements.
- Landfill methane gas flaring initiative, offset by sale of carbon credits to NZ Government.

Council's focus is on maintaining or in some cases, as listed above, increasing levels of service. There is no intent to reduce levels of service.

Assessment around maintaining levels of service and demand

In making the assessment, consideration included:

- Expenditure associated with meeting legal requirements (e.g. processing time for resource consents).
- Expenditure irrevocably committed (i.e. projects already started, expenditure that is irreversible for other reasons).
- Expenditure that is essential (and why it is deemed essential).
- Expenditure needed to maintain existing levels of service.
- Expenditure needed to meet the needs of development and population growth.

- Expenditure necessary to meet planned increases in levels of service.
- Level of rate revenue required to meet the above needs and impact across the district's communities.
- Level of non-rate revenue required.
- Movements in debt.
- Mix of funding sources consistent with the funding and financial policies.

Intergenerational equity

The council has to consider the wellbeing of our communities now as well as in the future. As a result it seeks to ensure that, as far as possible, today's ratepayers only pay for the services they are likely to consume and not for benefits that will be received by new ratepayers in the future. This involves a balancing act, considering what services the council intends to deliver and whether current or future ratepayers should pay for them.

Many of our assets have long lives and provide benefits to our customers over a long period of time. Often assets are built before future ratepayers 'consume' the services that use those assets. Setting an appropriate rates level involves considering how much of the expenditure required should be funded by current ratepayers (via rates) and by future ratepayers (by borrowing now and collecting subdivision or development contributions as new ratepayers arrive). This concept for achieving fairness between customers over time is called 'intergenerational equity'.

Minimising risk

Council has adopted an Integrated Risk Management (IRM) framework and process as the means for managing risk within the organisation. The IRM purpose is:

- To demonstrate responsible stewardship by RDC on behalf of customers and stakeholders.
- To act as a vehicle for communication with all parties with an interest in RDC's organisational and asset management practices.
- To provide a focus within RDC for ongoing development of good management practices.
- To demonstrate good governance.
- To meet public expectations and compliance obligations.
- To manage risk from an organisational perspective.
- To facilitate the effective and transparent allocation of resources to where they will have most effect on the success of the organisation delivering its services.

Council has considered and reported on the significant assumptions, risks and uncertainties, summarised in the Significant Forecasting Assumptions section.

Managing the challenges

The council regards financial sustainability as the interconnection between its three key themes and its ability to provide services and facilities the community expects. Council will endeavour to manage these challenges by taking a holistic view to planning using its three key themes to drive the outcomes/outputs the community desires. To achieve this Council will focus on its '5 drivers of financial management'.

To manage these challenges Council has 'levers' to assist in influencing the financial position for each year of the Long-term Plan. These levers are:

- **Revenue:** This includes general rates, targeted rates and other revenue such as subsidies, grants, fees, charges, leases, rent etc
- **Levels of Services:** Over time Council can alter a level of service which will ultimately increase or decrease expenditure. This change in expenditure also influences the revenue associated with the service up or down, depending on the change in service level. This variation is summarised in the net cost of service statement and resultant surplus/deficit.
- **Borrowings:** Borrowings (or debt) can be used to finance the purchase of long term assets where the services provided by the asset are over many generations. It is therefore fair and reasonable to use debt and then repay it over a period that relates to the life of the asset

"The 5 drivers of financial management"

1. Focus on economic growth:

Council believes that the Rotorua economy can do much better than it has in the past decade. A wide range of strategies have been developed for encouraging stronger economic growth in the Rotorua Sustainable Economic Growth Strategy. This focus will be of extreme importance for the first three years of the Long-term Plan. It is hoped that as a result of this particular emphasis the economy will grow and targets for the next five years met (i.e. extra 557 businesses, 2,761 new jobs and 3,887 extra people living in the district). Increases would continue for the remaining years of the Long-term Plan without Council providing the same levels of financial input into economic growth and development.

2. Return to balanced wellbeing:

It is expected that with the considerable effort of the council, industry and business sector groups, the economy of Rotorua will have grown and strengthened. It is expected that unemployment will reduce, average income increase and new investment continue to be made in the district. At that time, around 2015 – 2016 there will be a more balanced emphasis of Council's efforts across all of the sustainable wellbeings of social, cultural, environmental and economic. This would see more emphasis on recreation, sporting facilities, etc.

3. Rates increases below 3.5% for years 1-3:

The first three years of this Long-term Plan have low rate increases with 2.9% in the first year (2012/13) then 3.1% and 3.1% for the subsequent two years. The reasons are twofold:

- (i) To assist those who are on low incomes or fixed incomes by not putting unnecessary pressure on their financial wellbeing during these more difficult economic times. Low rates increases over the past three years of 1.9%, 1% and 3.2% respectively have ensured that the real rates for an average residential property are modest when compared to other local authorities.
- (ii) To allow the business sector to use low rate increases or reduced costs because of rates, for investment in growing their business.

4. Retaining of service levels:

Every effort has been made in planning for the next ten years to ensure that current levels of service do not decline. In fact, there are some areas where there will be improved levels of service (refer to the table below). This has been achieved by improved process management, productivity improvements and careful budgeting.

Major changes in levels of service (increases and decreases)

 Denotes maintaining existing levels of service

Activity	2012/13	2013/14	2014/15	2015-2022
Corporate and Customer Services Group				
Community engagement & support	4 City Guardians continued		City guardians not funded	
	Carparking area added at Lucas Place			
				In partnership a major upgrade and replacement of pensioner units at Rawhiti complex
Emergency Management	Increased contribution to Bay of Plenty Regional Council staffing the Civil Defence Emergency Management			
Governance and Strategic Direction	Increased on-line services to improve customer service			
Economic and Regulatory Services Group				
Building Services	Earthquake prone building assessment			
Economic development	Tutanekai street development for walkable city			
	CCO established and increased funding (budgeted across full ten years)			
	Live, work and invest research and survey work (budgeted across full ten years)			
	Reduced spending on city cleaning and possible change in delivery (budgeted across full ten years)			
	Increased marketing budget in Destination Rotorua Marketing (budgeted across full ten years)			
Events & Venues				
Planning Services				
Regulatory Services	Expansion of dog pound			
Rotorua Museum	Exterior lighting of Museum (funded fully by Centennial Trust)			
	Learning Experience programme (continuation subject to external funding)			

Major changes in levels of service (increases and decreases) cont.

Denotes maintaining existing levels of service

Activity	2012/13	2013/14	2014/15	2015 - 2022
Infrastructure Services Group				
Aquatic Centre		Joint venture development of facilities that could include health centre, gym and café		
Infrastructure planning and compliance				
Public gardens, reserves and gardens	Youth space development		Youth space development	
	Kuirau Park enhancements			
	Lakefront upgrade (over of the remaining years)			
				Neil Hunt Park upgraded field
	New and improved levels of services for public toilets (budgeted across full ten years)			
Roads and footpaths	Eat Streat development			
		Passenger transport centre		
				Victoria Street arterial development
	Rural seal extensions (budgeted across full ten years)			
Rotorua Airport Infrastructure				
Sewerage and sewage	Hamurana/Awahou wastewater scheme			
	Rotoma wastewater scheme			
	Terax thermal deconstruction plant			
			Gisborne Point/Hinehopu (Rotoiti) wastewater scheme	
				Mamaku wastewater scheme
				Tarawera wastewater scheme
				Reporoa wastewater scheme
Stormwater and land drainage				
Waste management			Organic waste process (using Terax process)	
			Leachate treatment facility	
Water supplies			Eastern reservoir development	
	Network improvement (budgeted across all ten years)			
Castlecorp				

5. Council debt:

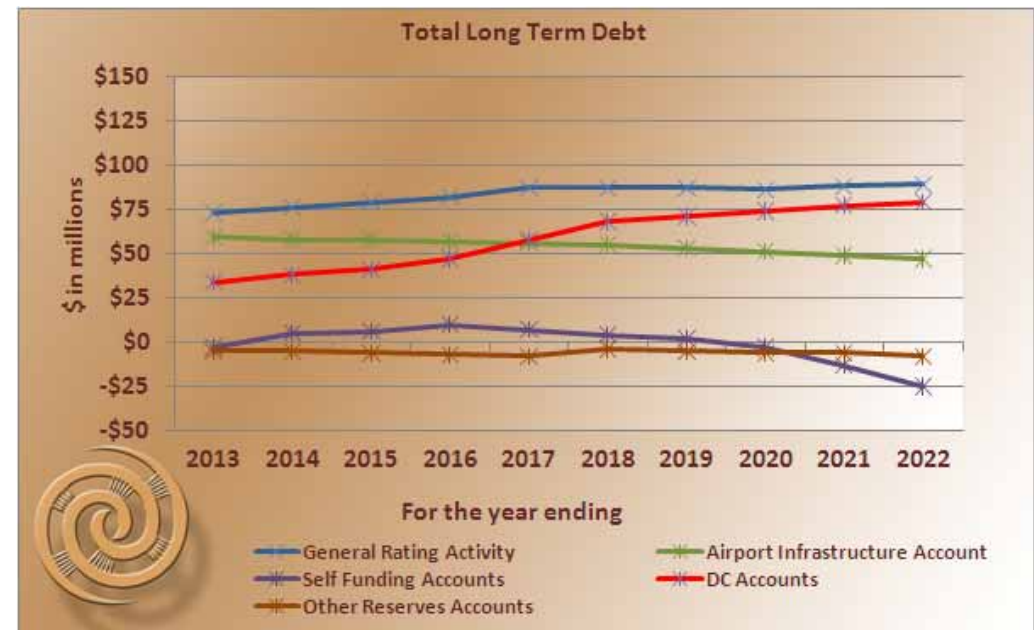
Council keeps a very close eye on its level of debt, particularly debt in ten years time. This driver is designed to ensure that debt levels are always managed within Council's prudent debt management policy and also to have 'head room' in the last three years of the Long-term Plan so future generations can use that capacity for their aspirations.

Total External Long Term Debt

For the year ending 30 June:	2012/13 (\$000's)	2013/14 (\$000's)	2014/15 (\$000's)	2015/16 (\$000's)	2016/17 (\$000's)	2017/18 (\$000's)	2018/19 (\$000's)	2019/20 (\$000's)	2020/21 (\$000's)	2021/22 (\$000's)
General Rating Activity	73,251	76,489	78,894	81,996	86,560	86,859	86,943	86,275	88,068	89,460
Airport Infrastructure Account	58,643	58,238	57,762	56,928	55,948	54,758	52,945	50,737	49,357	46,915
Self Funding Accounts	(2,586)	5,367	6,136	10,497	7,162	3,888	1,834	(3,004)	(12,949)	(24,775)
Development Contributions Accounts	33,741	38,079	40,655	48,685	57,821	67,674	71,238	73,963	76,611	79,020
Other Reserves Accounts	(4,754)	(5,392)	(6,055)	(7,110)	(7,924)	(4,334)	(4,794)	(5,618)	(6,491)	(7,587)
Total Debt	158,295	172,781	177,392	190,994	199,567	208,846	208,166	202,353	194,596	183,033

Council has identified two main types of debt; those listed as general debt and those 'ring-fenced' as being self-funding. Self-funding debt is associated with a particular service or activity where the beneficiaries are identified and their repayment of that specific debt is tracked over time. These include all new capital for sewerage schemes and debt associated with the maintenance and repair of housing for the elderly.

Airport infrastructure debt is also a separately identified debt. This debt is intended to be repaid over time from dividends from the council's separate airport company – Rotorua Regional Airport Limited (RRAL). However, across the life of this plan Council has determined that ratepayer contributions should be included on an annual basis (\$4 million per annum) to cover current interest requirements and pay a proportion of the principle.



Treasury Management/Treasury Policy

To maintain reasonable debt levels Council has a Treasury Management Group (TMG) which includes the Chief Executive, Group Manager Corporate and Customer Services, Finance Manager, Treasury Accountant and external treasury experts. The TMG meets regularly to ensure treasury policy parameters are appropriate, to closely monitor Council's levels and profile of debt, and to keep a watching brief on global and local economic indicators.

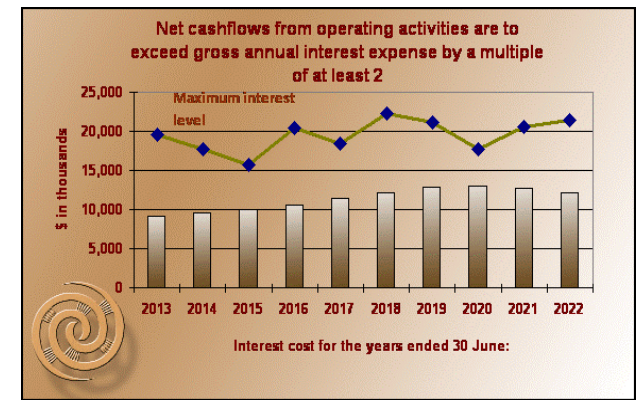
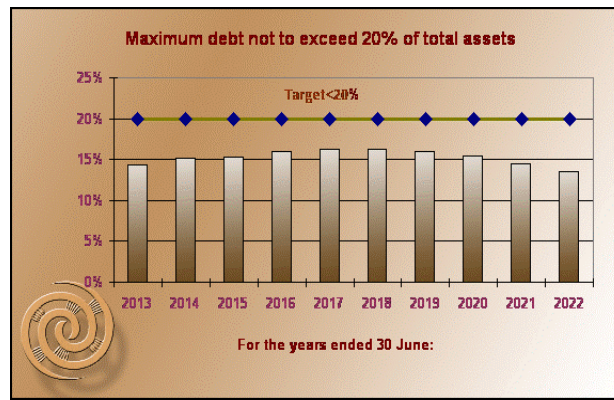
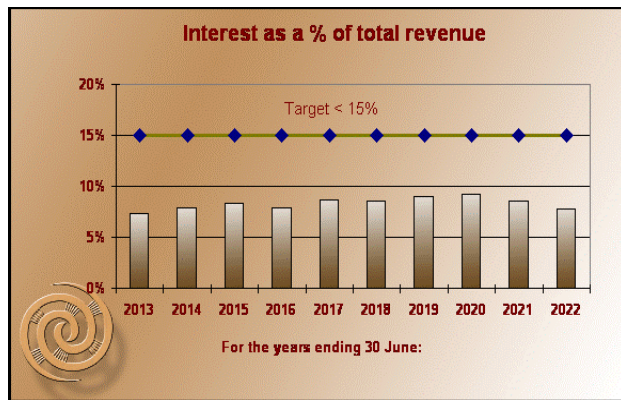
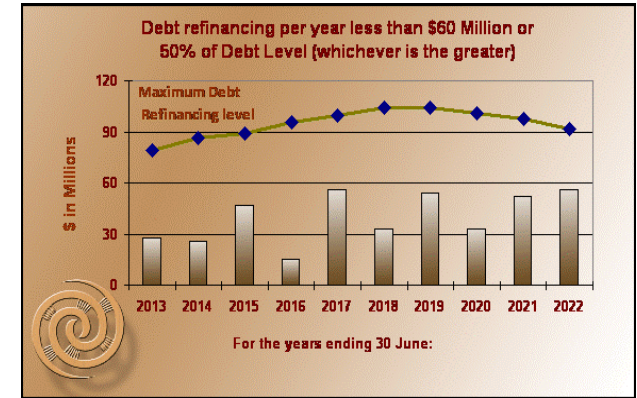
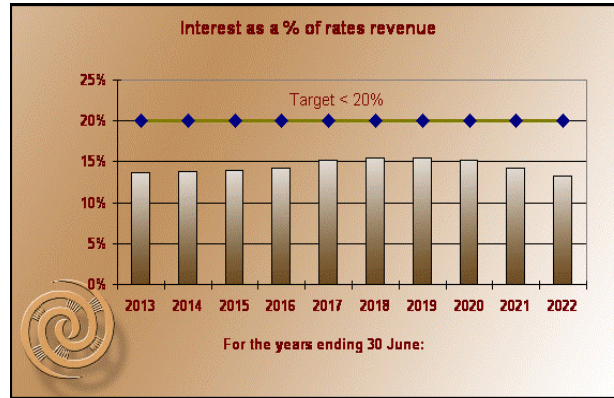
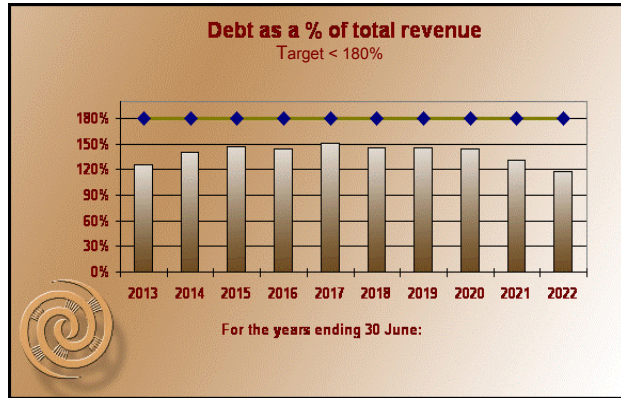
Council's Treasury Policy targets ensure borrowing limits are realistic in the current forecast financial climate. Borrowing limits and debt maturity targets help to minimise the council's financial risk. The Council's Treasury Management Policy includes the Investment and Liability Management Policies.

Treasury Policy parameters are:

- The gross Interest expense of all borrowings will not exceed 15% of annual total revenue
- Net cashflows from operating activities are to exceed gross annual interest expense by a multiple of at least 2
- Maximum debt not to exceed 20% of total assets
- No more than \$60 million or 50% of existing external borrowing (whichever is the greater) is subject to refinancing in any one year

Treasury Policy Limits	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Debt (\$000)	158,295	172,781	177,392	190,994	199,567	208,846	208,166	202,353	194,596	183,033
The gross interest expense of all borrowings will not exceed 15% of total annual revenue	7%	8%	8%	8%	9%	9%	9%	9%	9%	8%
Net cashflows from operating activities are to exceed gross annual interest expense by a multiple of at least 2	4.28	3.67	3.11	3.87	3.22	3.67	3.28	2.74	3.25	3.54
Maximum debt not to exceed 20% of total assets	14%	15%	15%	16%	16%	16%	16%	15%	14%	13%
No more than \$60 million or 50% of existing external borrowing (whichever is greater) is subject to refinancing in any financial year	\$28 m	\$ 26 m	\$47 m	\$15 m	\$56 m	\$33 m	\$54 m	\$33 m	\$52 m	\$56 m
Loan refinancing % of limit	35%	30%	53%	16%	56%	32%	52%	33%	53%	61%
Targets not in Treasury Policy										
The gross interest expense of all borrowings will not exceed 20% of total rates annual revenue	14%	14%	14%	14%	15%	16%	15%	15%	14%	13%
Maximum debt not to exceed 180% of total revenue	126%	141%	147%	144%	151%	146%	146%	144%	131%	118%

The following graphs outline Treasury Policy targets and Council's forecast position over the ten year period of the Long-term Plan.



Council's Treasury Policy targets and performance across the ten years of this plan remain within set policy and no significant fluctuations occur. This provides confidence that Council's potential to respond to unforeseen issues in the future are not reduced or limited by decisions taken today.

Equity Investments

Council holds investments such as the CCO, CCTO and cash investments which are held for strategic purposes and therefore do not generate a return.

The 'fiscal envelope' implication

The result of applying the above strategies is a set of financial parameters which guide how the council will deliver services and make decisions on funding and expenditure. This can be likened to a 'fiscal envelope' - all future funding and expenditure decisions should be made within the bounds of that envelope. This also provides a tool to alert the council before making any inconsistent decision.

Legislation sets out the requirements for councils to operate what is called a 'balanced budget' i.e. income must equal operating expenditure (operating expenditure includes non-cash items such as depreciation).

However if a council believes it is prudent to not have a 'balanced budget' (ie that an operating surplus is not required), it must make a formal decision to that effect. The decision must be a prudent one and have included consideration of levels of service and useful life spans of assets. That is then an equitable decision.

There are strong grounds for not having a surplus every year to avoid building unnecessary cash reserves. Council's asset management plans ensure that the depreciation necessary to fund periodic renewals is more than adequate. On this basis, Council does not operate a 'balanced budget'. This information is detailed in the table below.

Balanced budget

For year ending 30 June:	2010/11 Actual (\$000)	2011/12 Annual Plan (\$000)	2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)	2017/18 (\$000)	2018/19 (\$000)	2019/20 (\$000)	2020/21 (\$000)	2021/22 (\$000)
Surplus	7,655	15,226	16,697	11,758	6,833	15,924	11,782	19,456	16,888	10,119	15,911	16,571
Less capital revenue:												
Capital grants and subsidies	(16,294)	(11,913)	(21,302)	(14,358)	(8,883)	(16,323)	(12,197)	(18,311)	(11,301)	(4,044)	(5,791)	(4,191)
Development and financial contributions	(851)	(759)	(1,300)	(1,322)	(1,344)	(1,574)	(1,812)	(2,052)	(2,299)	(2,560)	(2,832)	(3,112)
Capital rates	(2,024)	(2,999)	(1,293)	(2,068)	(2,542)	(2,185)	(1,788)	(1,804)	(3,613)	(2,295)	(3,214)	(2,473)
Vested assets	(379)	(1,843)	(1,843)	(1,907)	(1,967)	(2,032)	(2,101)	(2,170)	(2,243)	(2,326)	(2,416)	(2,511)
Operating Surplus/(Deficit) excluding capital revenue	(11,894)	(2,289)	(9,041)	(7,897)	(7,903)	(6,190)	(6,115)	(4,880)	(2,568)	(1,105)	1,658	4,284
Add back depreciation	25,983	24,419	24,391	25,492	26,435	26,867	27,308	27,366	27,643	27,674	27,699	28,732
Less renewal capital expenditure	(12,057)	(14,563)	(15,209)	(20,141)	(14,774)	(19,789)	(19,695)	(18,395)	(21,753)	(20,860)	(23,665)	(25,160)
Plus roading capital revenue funding renewals	2,134	2,220	2,807	2,161	2,239	2,341	2,446	2,639	2,634	2,650	2,761	2,864
Operating Surplus/(Deficit) excluding capital revenue and adjusted to include funded depreciation	4,166	9,787	2,948	(385)	5,997	3,229	3,944	6,730	5,956	8,359	8,453	10,720

Rates and rating

Council will endeavour to keep income required from rates steady as well as creating predictability in the level of rates required. This will include taking a multi-pronged approach to managing the cost to ratepayers (through efficiency gains) and increasing other revenue sources (to reduce dependency on rates revenue).

as at 30 June:	Annual Plan Budget	Long Term Plan Budget >>									
	2011/12 (\$000)	2012/13 (\$000)	2013/14 (\$000)	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)	2017/18 (\$000)	2018/19 (\$000)	2019/20 (\$000)	2020/21 (\$000)	2021/22 (\$000)
Sources of operating funding											
General Rates, uniform annual general charges, rates penalties	32,029	45,054	47,381	48,616	50,112	51,526	53,735	56,047	57,993	60,327	62,505
Targeted rates (other than a targeted rate for water supply)	31,944	20,659	20,135	20,762	21,401	22,180	22,948	23,754	24,620	25,553	26,494
Subsidies and grants for operating purposes	3,932	3,382	3,304	3,457	3,395	3,361	3,553	3,480	3,433	3,616	3,522
Fees, charges and targeted rates for water supply	7,223	7,138	7,645	8,227	8,683	9,132	9,562	9,975	10,442	10,946	11,467
Interest and dividends from investments	60	36	36	36	36	36	36	36	36	36	36
Local authorities fuel tax, fines, infringement fees and other receipts	22,667	23,368	24,378	25,079	26,864	28,060	28,917	31,198	32,397	33,878	36,291
Total operating funding (A)	97,855	99,637	102,879	106,177	110,490	114,295	118,750	124,490	128,922	134,357	140,315
Applications of operating funding											
Payments to staff and suppliers	73,280	75,110	75,659	77,582	79,279	81,622	84,094	86,523	89,404	92,332	95,227
Finance costs	9,499	9,178	9,625	10,063	10,533	11,480	12,173	12,891	12,951	12,667	12,073
Other operating funding applications											
Total applications of operating funding (B)	82,779	84,287	85,284	87,644	89,812	93,102	96,266	99,414	102,354	104,999	107,300
Surplus (deficit) of operating funding (A - B)	15,076	15,350	17,595	18,532	20,678	21,193	22,483	25,076	26,567	29,358	33,015
Sources of capital funding											
Subsidies and grants for capital expenditure	19,962	21,302	14,358	8,883	16,323	12,197	18,311	11,301	4,044	5,791	4,191
Development and financial contributions	1,418	1,300	1,322	1,344	1,574	1,812	2,052	2,299	2,560	2,832	3,112
Increase (decrease) in debt	2,144	5,036	3,529	2,549	3,541	4,978	579	380	(315)	2,074	1,830
Gross proceeds from sale of assets	203	500	324	178	572	502	362	392	456	376	721
Lump sum contributions	1,346	1,293	2,068	2,542	2,185	1,788	1,804	3,613	2,295	3,214	2,473
Total sources of capital funding (C)	25,073	29,430	21,601	15,495	24,195	21,276	23,107	17,985	9,039	14,287	12,328
Applications of capital funding											
Capital expenditure											
- to meet additional demand	23,207	16,598	14,864	6,123	13,837	14,562	23,964	14,057	764	794	679
- to improve the level of service	11,011	15,417	15,774	15,730	21,787	12,295	12,351	6,689	9,257	9,125	6,971
- to replace existing assets	14,766	16,568	19,932	14,505	19,874	19,746	18,381	21,677	20,566	24,301	24,864
Increase (decrease) in reserves	(8,835)	(3,803)	(11,372)	(2,331)	(10,626)	(4,135)	(9,105)	637	5,019	9,425	12,829
Increase (decrease) in investments											
Total applications of capital funding (D)	40,149	44,779	39,197	34,027	44,872	42,469	45,590	43,061	35,606	43,645	45,342
Surplus (deficit) of capital funding (C - D)	(15,076)	(15,349)	(17,596)	(18,532)	(20,678)	(21,192)	(22,483)	(25,076)	(26,567)	(29,358)	(33,014)
Funding balance ((A - B) + (C - D))	0	0	0	0	0	0	0	0	0	0	0

Movements in Rating Types

Description	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Rating Types										
Rates	3.3%	5.8%	2.3%	2.9%	2.6%	4.6%	4.6%	3.5%	4.3%	3.7%
Uniform Annual General Charge	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Less RDC Rates	68.2%	3.1%	3.0%	3.2%	3.3%	2.8%	2.9%	3.2%	3.4%	3.3%
Water Rates	4.0%	7.3%	7.1%	6.1%	6.1%	5.6%	5.5%	5.8%	5.9%	5.8%
Sewerage Rates	(0.3%)	1.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Refuse Rates	3.0%	3.5%	3.2%	3.3%	3.4%	3.3%	3.4%	3.7%	3.9%	3.9%
Water by Meter	5.2%	8.5%	8.3%	7.6%	6.8%	5.9%	5.6%	5.8%	5.9%	5.8%
Water by Meter Penalty	0.0%	3.1%	3.0%	3.2%	3.2%	2.8%	2.9%	3.2%	3.4%	3.3%
Lakes Enhancement Rate	3.0%	3.5%	3.2%	3.3%	3.4%	3.3%	3.4%	3.7%	3.9%	3.9%
Urban Sewerage Development Rate	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Lakes Community Board Rate	3.0%	3.5%	3.2%	3.3%	3.4%	3.3%	3.4%	3.7%	3.9%	3.9%
Business and Economic Development Rate	29.8%	(19.6%)	2.2%	2.8%	2.9%	2.5%	2.7%	2.9%	3.3%	2.8%
Less Water by Meter	0.0%	3.1%	3.0%	3.2%	3.2%	2.8%	2.9%	3.2%	3.3%	3.3%
Total From Rating Types excluding Sewerage Capital Rates	2.9%	3.1%	3.1%	3.3%	3.3%	4.2%	4.2%	3.7%	4.1%	3.8%
Sewerage Capital Rates	(7.9%)	95.9%	29.6%	(18.5%)	(25.2%)	0.0%	146.1%	(44.3%)	53.5%	(29.6%)
Total From Rating Types	2.7%	4.1%	3.6%	2.8%	2.7%	4.1%	6.2%	2.0%	5.0%	2.9%
Rates as a percentage of total revenue	56.5%	60.3%	63.4%	59.2%	61.0%	58.7%	62.0%	64.9%	64.0%	63.9%

Limit on rates collected: Council will continue its approach of allocating rates based on who causes and benefits from its activities. Council will limit total rates as a proportion of total revenue to less than 70%.

The amounts that are shown above are the average rates throughout the Long-term Plan. There will be properties that pay less and others that will pay more, depending on the services they receive. Average rating samples for areas across the district are provided earlier in this section (Indicative rates 2012/13 table) or in the Indicative rates 2012/13 section later in this document.

Security of borrowing

In general Council will secure its general borrowing and interest rate risk management activities by way of a charge over rates revenue. In unusual circumstances, with prior Council approval, a charge over one or more of Council's assets may be offered.

Note:

The prospective financial information presented on page 42 and in the Groups of Activities (pages 71-195) has been prepared to meet the requirements of the Local Government Act 2002.

Limits on rate increases

Keeping rates increases as low as possible has been a target for the last three years and continues to be an important focus in this Long-term Plan.

The first three years of this Long-term Plan include low rate increases, with 2.9% in the first year (2012-13) then 3.1% and 3.1% for the subsequent two years. The reason for this is twofold:

- (i) To assist those who are on low incomes or fixed incomes by reducing unnecessary pressure on their financial wellbeing during current difficult economic times.
- (ii) To allow the business sector to use low rate increases or their reduced costs from rates for investment in growing their businesses.

In order to make comparisons between one year and the next it is important that each year be compared to the same baseline from the previous year. For example this means that in years when new targeted rates for sewerage schemes are introduced those new rates are not included in the initial calculation to show the rate increase for that year.

Council's costs are calculated differently from residents' day to day costs of living (consumer price index or CPI) that everyone is familiar with. Some commentators argue that rate increases at inflation (or CPI), or below, eventually must lead to a decline in levels of service. In other words, revenue is not keeping pace with increased costs and hence less real expenditure is available for delivering services, maintaining assets and funding any associated debt. CPI reflects the cost changes affecting households and includes a wide range of products and services, such as groceries, fuel and energy. However, it does not necessarily reflect the cost drivers in the local government sector, which include labour, fuel, energy and the cost of raw materials. The CPI has more than 650 components and a quick overview shows that at least five components have grown faster than local authority rates over this period. The

components that have grown faster than rates are refuse disposal and recycling, petrol, other vehicle fuels and lubricants, real estate services and dwelling insurance. Rising costs within the local government sector have been used to base the long-term financial projections on. Then, through issues of affordability and efficiency gains, Council has set the rates near CPI levels for ease of comparison.

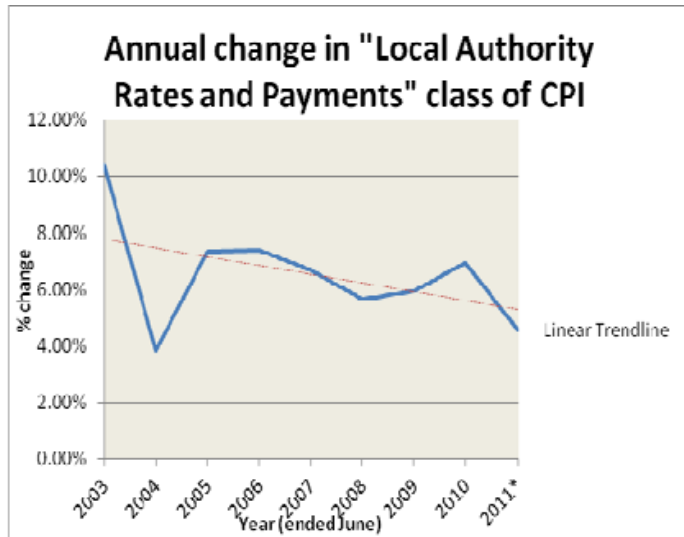
While the council will continue to consider affordability issues when setting rate levels each year, it is now required by legislation to include a statement on quantified limits on rates increases. This is not new for council. In the 2009-19 Ten Year Plan Council signalled that it wanted to ensure general rates were around the prevailing consumer price index (CPI) where possible.

It also recognises that from time-to-time Council will need to increase the level of service that it is providing to meet, for example, community needs and new resource consent requirements. Individual properties may experience smaller or larger increases than those stated, as factors such as movements in property values, the services received and property location can change the way rates costs are allocated.

This approach will limit the extent to which the council can undertake new or increased services and projects unless savings can be found elsewhere. As it provides for little contingency, this is a conservative approach. In looking at this proposal it is important to recognise it is a policy 'cap' and that the council is aiming to restrict rating movements to no more than the movement in the local government cost index, or where possible, the consumer price index.

Limit of rate increases: Limit the increase to no more than the 3.5% for years 1-3, and no more than 2% above CPI in years 4-10.

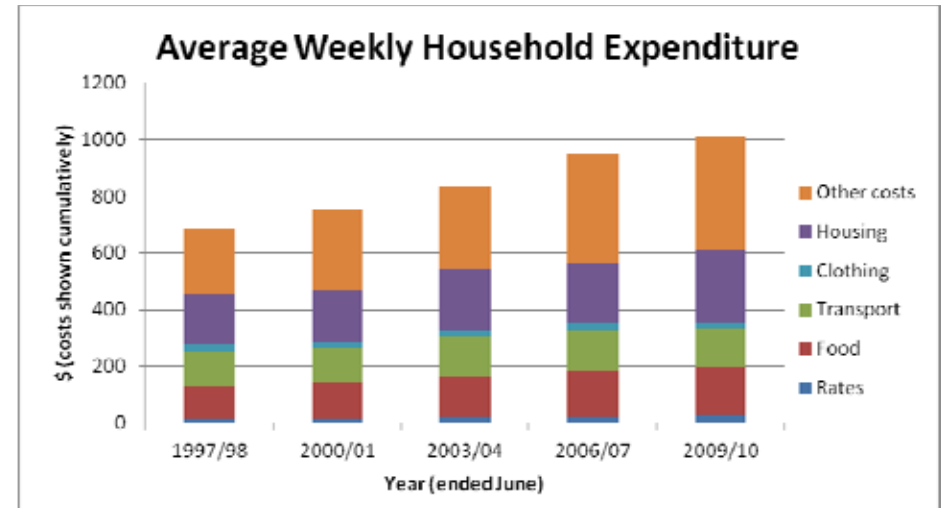
The average annual increase in the 'local authority rates and payments' class of the CPI, between June 2003 and June 2010, was 6.75%. See figure below.



Source: Local Government New Zealand

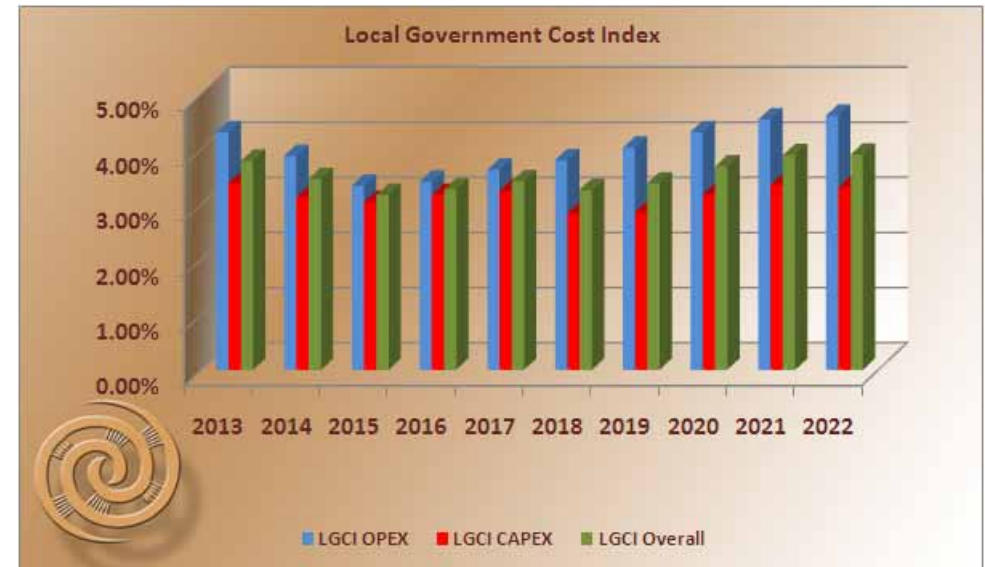
Focussing on the CPI however can be misleading as council costs are driven by the cost of bitumen and construction materials rather than household consumables, such as weetbix. The cost of bitumen, for example, has risen 91% in the last ten years. Local Government NZ approached BERL to develop a Local Government Cost Index (LGCI) to track the movement in the inputs that drive council costs. The index shows that by 2016, the projections are for local government costs to have grown 43.7% faster than consumer costs since 2011.

Statistics New Zealand undertakes a Housing Expenditure Survey every three years. Looking at the last two surveys we find that the portion of household expenditure spent on rates is unchanged (see graph below).



Source: Local Government New Zealand

Years ending 30 June:	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
BERL adjustor										
Local Government Cost Index (LGCI) overall	3.79%	3.46%	3.17%	3.27%	3.42%	3.26%	3.38%	3.69%	3.89%	3.90%
Local Government Cost Index (LGCI) capital expenditure	3.39%	3.13%	3.04%	3.17%	3.25%	2.83%	2.86%	3.18%	3.35%	3.31%
Local Government Cost Index (LGCI) operational expenditure	4.31%	3.88%	3.34%	3.41%	3.63%	3.80%	4.03%	4.31%	4.54%	4.61%



Cost control

There has been a concerted effort by the council over the past four years to reduce costs and that has led to very low rate increases of 1.9% in 2009, 1.0% in 2010, 3.2% 2011, and in year 1 of this Long-term Plan a 2.9% increase. These very low rate increases have been achieved through:

- innovative procurement,
- productivity improvement processes to reduce costs (refer to Lean Thinking and Efficiency gains table on page 21)
- collaboration with other organisations to develop innovative solutions and exploring shared services
- engaging staff rather than contractors to deliver services, such as our business unit for maintenance (Castlecorp); and a business unit for utilities design (Hydrus Engineering Consultants). Council also evaluates outsourcing opportunities from time to time including those areas where it is difficult to recruit appropriately skilled staff, such as internal audit services.

This part of the financial strategy is designed to show that budgeting has been developed in a proper manner and is sustainable

▪ Zero-based budgeting

The budgeting process for this plan has had considerable management oversight to ensure only expenditure essential for maintaining current levels of service is provided, and that capital expenditure for backlog, renewals, growth and any increased levels of service is provided on a 'just in time' basis.

▪ Structure

Council has revised its governance and management structures to provide an effective connection with strong links to policy, operations and monitoring. Management provides a flatter third tier within three groups, i.e. Economic and Regulatory Services Group, Infrastructure Services Group and Corporate and Customer Services Group. This structure is designed to have a real customer focus and a 'whole of council' response to supporting the district's needs and expectations. The new approach is already demonstrating results within regulatory areas of Council. Council aims to be recognised as being very easy to do business with.

▪ Procurement

Coupled with the Lean Thinking programme is a professional and sophisticated approach to procurement. Over the past four years Council has consistently made annual reductions in costs in excess of \$1 million, through better packaging of tendering, attracting more competition in bidding processes and using alliances and shared services to achieve economies of scale.

▪ Shared Services

Two of our alliances are BOP LASS LTD and Local Authority Shared Services Ltd. These are shared service companies owned jointly by Bay of Plenty local authorities in the first instance, and Waikato local authorities in the second. These companies have helped to drive down Council's costs, particularly through procurement benefits. The next phase will be to explore shared services with all or some of the shareholder councils, depending on the nature of services selected.

▪ In-house Services

Another approach to carefully managing costs that gives confidence to management and elected members is the amount of services and quality of support provided in-house. Council continues to use an in-house business unit providing maintenance for water, wastewater, parks, toilets and refuse collections. This is a strong and successful model and those services provided by Castlecorp will be expanded over time. A likely new service will be CBD street cleaning.

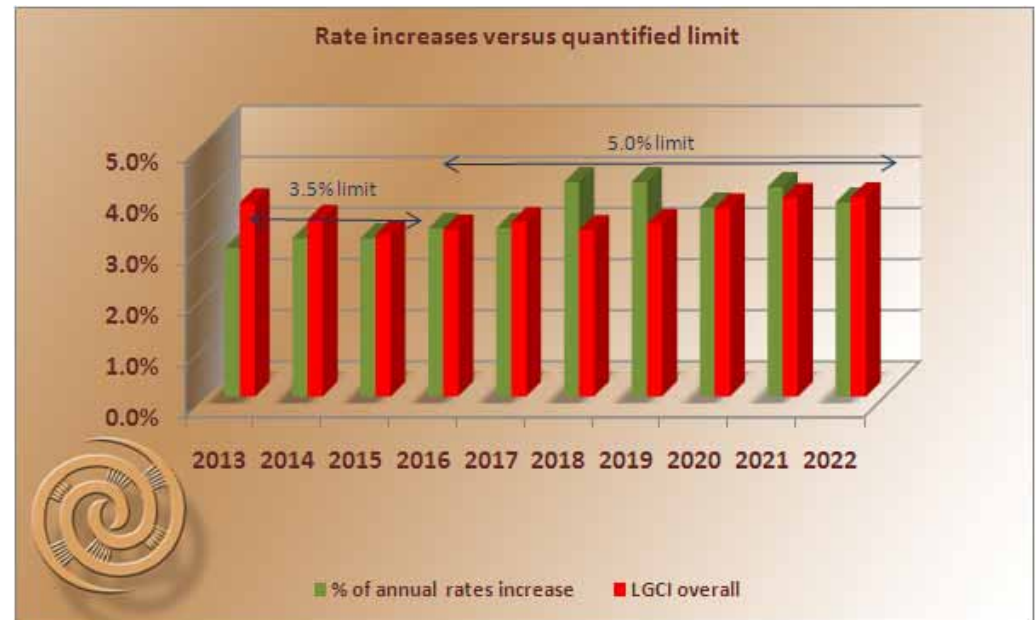
▪ Lean Thinking

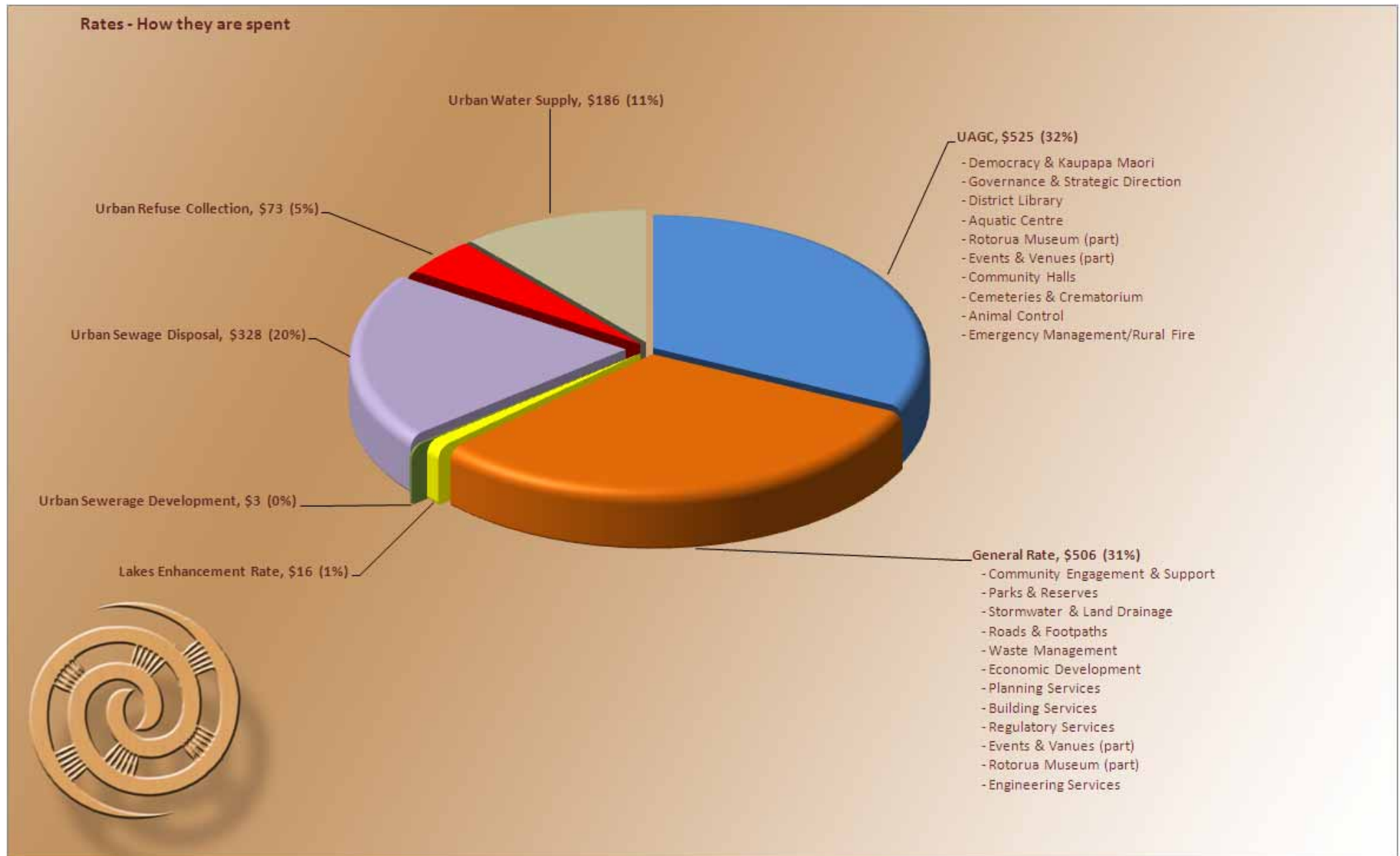
As noted previously, the council is seeking to make significant savings over this Long-term Plan using the Lean Thinking approach. It is expected that this continuous business improvement will net approximately \$10 million in operational savings.

Proposed rate increases versus quantified limit

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Annual % rates increase proposed in draft Long-term Plan (excluding lump sum sewerage charges)	2.9%	3.1%	3.1%	3.3%	3.3%	4.2%	4.2%	3.7%	4.1%	3.8%
Compared to:										
Limit on total rate increase (excludes LOS change)*	3.5%	3.5%	3.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
LGCI overall	3.79%	3.46%	3.17%	3.27%	3.42%	3.26%	3.38%	3.69%	3.89%	3.90%

* Assumes a maximum CPI of 3% plus limit above this of a further 2%





The above graph is based on a typical urban residential property with an average land value of \$127,000 and capital value of \$222,000. This sample property will pay annual rates of \$1,637 (plus GST in 2012/13). This excludes the rates paid to Bay of Plenty Regional Council.

Strategic Projects

The projects/services listed below are all included in the Long-term Plan.

Corporate and Customer Services Group

Customer Service (on-line services 2013/14)

Part of making it easier to interact and do business with the council is the opportunity to use on-line services through Council's website. This is an area of investment for the council and links to work being done around shared services and in simplifying council processes and documentation (continuous improvement and Lean Thinking). The council is also focusing on enhancing customer service for those people who choose to make contact in person at a council location or by telephone.

Shared services (ongoing throughout the Long-term Plan)

Council is a member of the Bay of Plenty and Waikato local authority shared services entities (BOPLASS and Waikato LASS) and has worked with member councils to make savings through group procurement programmes. The emphasis is now changing and the council is placing greater emphasis on the development of shared services through these current structures and increasingly through partnerships with individual councils. Council is currently gaining benefits from shared website/online service development with Hamilton City Council, and library site work continues with Whakatane and Western Bay of Plenty district councils. Business process improvements and rationalisation across councils will provide more opportunities to share services and reduce costs.

Rating system change (from 2012/13)

Rotorua District Council is changing the way rates are allocated in Rotorua district. The decision to change has been prompted by major shifts in official property valuations across the district. These have resulted in distortions to our current rating framework. In examining options the council endeavoured to ensure the rating framework remains stable enough to minimise the need for adjustments every three years, and to give ratepayers more certainty.

City Safe Guardians (2013-2015)

In 2011/12 Council agreed to employ five City Safe Guardians to be extra "eyes and ears" for the council, Rotorua Police and local businesses, with the aim of reducing crime and troublesome behaviour and improving perceptions of safety in the CBD and surrounding reserves. A budget to employ four City Safe Guardians has been included in the plan for the next two years.

Public private partnerships (PPPs) (2016-2022)

Council is planning to partner with a third party for the provision of pensioner housing in the district. In the past council received a government grant to undertake the first stage of upgrading the Rawhiti pensioner complex. No further government funding is now available and the remaining units are in need of replacement. Council will need to spend \$4.2m to complete the upgrade and replacement alone. By transferring the land (as a peppercorn lease) and the management of the privately funded units council may not be required to make any investment and the number of units is likely to be increased.

Economic and Regulatory Services Group

Council has had an involvement in economic development for over a decade and has recently reshaped its structure and focus to ensure greater contribution to the district's economic wellbeing. Over the next ten years there will be a focus on:

- The Urban Design Framework which provides an overarching concept for CBD development. Economic developments and economic projects activity will focus on making the city easier to navigate, improving the infrastructure and vitality of the restaurant precinct 'Eat Street' and strengthening the connection between the CBD, Rotorua Central and the Lakefront.
- The other major focus is attracting investment to Rotorua as a place to live, work and play. This project will leverage off the activities of Destination Rotorua Marketing and Rotorua's reputation as a tourism destination.

This Long-term Plan sets out Council's commitment to supporting growth so that all who live, work, play and invest in our district have improved prosperity.

Rotorua District Plan (2013-2015)

The next two years will be a critical time for Rotorua as council takes the new District Plan through the notification and appeals phases with the aim of becoming operative in the 2014/15 year. This is one of the most important documents Council has as it relates to what people can do on their land as permitted activities or through a resource consent, and what their neighbours can do. The review of the plan commenced in late 2007. Following extensive consultation with elected members, the public and the business community, a draft was released in April 2011. The draft attracted extensive feedback and in response Council will be consulting on a final draft before notifying the proposed version at the end of August 2012.

Rotorua Spatial Plan (2012-2013)

One frequent comment on the draft District Plan was a community request for a clear strategic direction on how and where the district is going to grow. A spatial plan is a good way of responding to this request and provides a simple, easy to follow document that brings together other key technical documents that inform the future shape of the district. The spatial plan will articulate likely future growth scenarios for the district and will become a key future planning tool for Council, residents, regional council, central government agencies and investors. The plan will also be an important step in ensuring the proposed new District Plan and future infrastructure investment is aligned with the growth aspirations of the community.

The spatial plan will be completed in 2012/13, in close alignment with the District Plan review process. Subsequent reviews will be linked with long-term planning triennial review milestones at 2015/16 and 2018/19.

It is important to note it will not be "yet another plan". Its name may change from 'spatial plan' and its key function in its first phase will be a map-focused document that reflects a user-friendly raft of technical documents.

Regulatory, Planning and Building Services Customer Service Focus (ongoing)

These plans will assist the community and council to create a sustainable economic growth environment backed by an enabling regulatory environment with an effective, efficient and customer friendly can-do approach to business. A key focus of the whole Economic and Regulatory Services Group will be to work across all council departments to assist in making the regulatory interface run more smoothly.

With this focus in mind, Council has recently reorganised the Planning department to create a new Client Support Manager role, reporting directly to the Manager, Planning Services. This role is designed to support projects related to the priority drivers of the Rotorua economy that require a consenting or regulatory output from Council. This role will be the primary contact point for an investor/developer, will facilitate the collation of necessary information from relevant council departments, and will be a 'trouble-shooter' throughout the consenting/licensing process.

Council is proposing to increase capacity at the pound, providing an increased level of service for dog control.

Readers of the plan will also note a significant shift in the performance measures of these functions, to a greater focus on performance criteria related to customer service and satisfaction.

Marketing Rotorua as a great place to invest, work, live and visit (ongoing)

To assist in bringing focus to the number one priority of the Rotorua Sustainable Economic Growth Strategy, the Economic Projects department of the group is applying resources to the marketing of the destination as a place to live, work and invest. This activity area is focused around breaking some of the negative perceptions and reinforcing the positive perceptions of the destination. The project will work closely alongside Destination Rotorua Marketing, leveraging off common external marketing messages.

In the first 12 months of the plan, marketing activity will primarily focus on the following key areas:

- Understanding audiences (priority is to start with our local audience and address perceptions and needs for each target segment.)
- Development of key relationships and partnerships (not just the role of Council – all stakeholders need to play their part.)
- Development of user-friendly and easily accessible resources and tools (to assist the decision-making process for those looking at investing, working and living in Rotorua.
- Regular consistent communication (this will include implementation of a Rotorua Ambassador campaign.)

Driven by the strategic direction set by the Rotorua Tourism Committee, Destination Rotorua Marketing will be focused over the life of this plan on executing the recently adopted Destination Rotorua Tourism Marketing Business Plan. The execution focus will be on the strategy platforms and on working 'smarter' to ensure activities of Destination Rotorua Marketing are complementing those of the Rotorua tourism industry.

The key focus areas of the plan are: (not in priority order)

1. Aggressively target and grow the Asian visitor market – specifically China.
2. Grow and increase Rotorua's share of the Australian visitor market – especially off-peak.
3. Increase average room nights and spend, to be equal to the national average, for both international and domestic visitors to Rotorua.
4. Increase the Auckland visitor market by 5% to 50,000 visitor nights.
5. Work in partnership with wider-Rotorua regional operators and Tourism New Zealand.
6. Take a leadership position in online marketing and travel search.
7. Increase ease of access to Rotorua as a visitor destination by helping Rotorua International Airport gain additional services.

Completion and operation of 'Te Ara O Ahi' (Pathway of Fire) – Rotorua Section of the National Cycleway

The first 7.5 km section of the cycleway along SH5 was completed in January 2012. This was an important milestone in the project, as the section along SH5 was the most complex to build. Construction of the second section was started in February 2012 and was scheduled for completion by mid May 2012. The grand opening of all sections will be in mid 2012.

Assuming that 10% of prospective cycle tourists use Te Ara O Ahi cycle trail, the estimated initial demand for the cycleway is at least 5,500 visits annually. This excludes local recreational cyclists and day visitors using the trail. Te Ara O Ahi should be an iconic cycle trail and well-promoted. Particular interest has been expressed by the owners and managers of local geothermal attractions along the route, as well as local accommodation providers and cycling businesses, for contributing to marketing of the cycle trail to ensure its success.

CBD revitalisation investment program - Urban Design Framework (2013-2014)

Because of the critical role the CBD plays as the heart of Rotorua for both residents and visitors, and as a major influence on the perceptions of Rotorua as a destination, Council will be focussed on completing a set of integrated CBD-centric actions and investments. These are designed to contribute to the vision of 'creating a public space where residents and visitors can enjoy recreation, outdoor dining, retailing and entertainment activities within a safe and attractive environment.'



Note: in this context the CBD is defined as: (South) Rotorua Central – (North/East) Lake Rotorua – (West) Kuirau Park

Council intends to revitalise central city through implementation of the CBD Revitalisation project which commenced in 2007 and led to the subsequent Urban Design Framework adopted in 2011. The framework is based on an activity precinct approach where some distinctive areas within the city centre have been identified for improvement. The focus in this long-term plan is on projects designed to enhance competitive positioning of the CBD as a community centre of activity and also as an attractive investment destination. The investment projects have been designed to try and influence those factors that will stimulate private sector investment in the CBD within a defined 12-36 month timeframe.

These projects include:

- Tutanekai Street spine – Strengthening the Tutanekai St spine as a ‘high street’ linking the Rotorua Lakefront, Government Gardens, Kuirau Park and visitor information centre, with the retail and dining offerings of the city. The main projects associated with this are ‘Walkable City’ (way-finding CBD points of difference as a visitor attraction); development of priority pedestrian links down Tutanekai; cultural mapping and story telling; themeing; Rotorua Heritage Arts Trail.
- Local transport centre – investigating the location of the local transport centre and its links with the regional bus network.
- Eat Street – Council’s vision is to create a destination within Tutanekai Street that attracts people and provides a sense of arrival for alfresco dining opportunities that are safe, inviting and commercially viable, and create an opportunity for public/private investment and co-operation.
- Lakefront development – working through a more defined development concept with Lakefront land owners and Lakefront operators with the intention of having a clear direction within the next two years.
- Concentrated programme for marketing the CBD as an investment destination, targeting investors, retailers, service industry, tourism operators and prospective residents.

Infrastructure Services Group

Kuirau Park facilities upgrade (2013-2014)

Aligning development and renewals with the aquatic centre upgrade to improve linkages with Kuirau Park and through to the neighbouring CBD, making for a busier and safer destination.

Aquatic Centre redevelopment (2013-2016)

It is intended to use a public private partnership (PPP) to upgrade the aquatic centre and associated facilities. Currently the aquatic centre has 330,000 visitors p.a. and Kuirau Park has 250,000 visitors p.a. Individually it has been difficult to attract investment for development in these areas. Combined they will make for a far more attractive opportunity.

Improved service levels for public toilets (ongoing)

A major review identified a number of facilities that require upgrading or replacement. A systematic programme to enhance facilities at key locations is proposed over the ten years of this plan

Lakefront development (2013-2017)

While reduced expenditure has been allocated in the Long-term Plan Council remains committed to enhancing the Lakefront. Initial work is required to identify potential partners and to resolve various land ownership and management issues.

Victoria Street Arterial (2014-2018)

Proposed new route on southern side of CBD linking SH5 with SH30 and the proposed Rotorua Eastern Arterial. Integrates land use within CBD and allows growth in and around CBD which is currently limited due to traffic capacity on Amohau Street

Rotorua Transport Centre (2013-2015)

Current transport centre is unable to cope with demand and has very limited linkage to local transport. Additional capacity is necessary to allow increased passenger numbers which is crucial for the district’s economic development.

CBD Upgrades (2013-2014)

Some CBD upgrade work is proposed in line with the Urban Design Framework. Initially this is planned for Eat Street and the Night Market, which are important projects to enhance the vitality and appeal of the CBD.

Rural and Lakeside Wastewater Schemes

The following schemes have been included to improve lake water quality

- | | | |
|---|---------|--------------|
| ▪ Hamurana/Awahou Scheme | \$3.5m | in 2013 |
| ▪ Gisborne Pt/Hinehopu (Rotoiti) Scheme | \$14.3m | in 2013-2015 |
| ▪ Rotoma Scheme | \$11.0m | in 2013 |
| ▪ Mamaku Scheme | \$7.6m | in 2013-2016 |
| ▪ Tarawera Scheme | \$16.4m | in 2013-2015 |
| ▪ Reporoa Scheme | \$6.4m | in 2019 |

Terax Thermal Deconstruction Plant (2013-2015)

This process has evolved through a partnership with SCION and a pilot plant is currently operating to test the viability and operating parameters of a full scale plant. It is intended to develop a full operational plant to treat biosolids from the wastewater plant.

Organic Waste Processing (2013-2016)

Council is expecting that success of the Terax plant will enable the technology to be expanded to deal with the treatment of organic waste (municipal waste e.g. landfilled rubbish).

Hydrus Engineering Consultants (ongoing)

HYRDUS Engineering Consultants is a business unit of Rotorua District Council formed to provide professional engineering services to the council and external clients. HYDRUS services include strategic planning for utility services, policy development, feasibility investigations, detailed engineering design, contract administration, construction supervision and project management of utilities and other infrastructural projects. As council work on Rotorua sewerage schemes decreases the Hydrus team's focus will increasingly be on providing services to other local authorities.

Castlecorp

Castlecorp is dedicated to developing innovative ways of delivering services to the community, while improving timeliness, quality and cost effectiveness of core services. Castlecorp is a significant part of the district council representing 25% of RDC's workforce and 20% of annual expenditure.

Castlecorp will continue to have a focus on quality aimed at customer satisfaction. The unit will continue to review and improve business processes and procedures to produce 'value for money' services which meet the needs and expectations of residents and visitors.

Any changes in demand will be identified where service level agreements exist, and subsequent changes in costings will reflect those increases in demand, service, or compliance requirements.

Partnerships will be developed within the community where initiatives are directly beneficial to community outcomes.

Castlecorp intends maintaining its position within the community by reducing risk through cost effective and efficient processes which are continuously improved and audited using ISO standards.

Significant forecasting assumptions

Council has developed a set of assumptions that has been used in preparation of the estimated financial statements in the Long-term Plan.

In preparing forecasts, both financial and non-financial, there is a need to decide what assumptions will be included in the plan. These assumptions are to address uncertainties of the future and provide varying degrees of certainty.

While the medium to long-term outlook for the New Zealand economy is positive, the recovery of the domestic economy over coming years will continue to be moderated by the lasting impact of the Global Financial Crisis (GFC) and subsequent European Sovereign debt issues. This means that a cautious approach to planning must be adopted.

Local Government New Zealand and the Society of Local Government Managers commissioned, on behalf of local government, annual price level change adjustors from Business and Economic Research Limited (BERL). This information has been used in preparation of this plan and annual updates will be used for each subsequent annual plan budget.