INTRODUCTION

CHIEF EXECUTIVE'S OVERVIEW

Introduction

It is with great enthusiasm and privilege that I provide this overview to the Ten Year plan. There is a considerable amount of material in this plan that has been considered and commented on, and still greater amounts of detail sitting in behind this document that are available. Your comments, through the submission process were very important so we could proceed with confidence knowing there is community support for the various plans and strategies contained in this Plan.

Local government has gone through a number of key changes over recent years. For Rotorua this started in 1976 with the amalgamation of the city and county Councils. In 1989 there was a round of reforms that saw the units of local government reduced from some 800 to 74. There were clearer outcomes expected, greater emphasis on efficiency/effectiveness and a clear separation of governance from management. In 1996 new financial management provisions were introduced that required greater transparency and accountability. In 2002 the first major rewrite of the Local Government Act for three decades occurred.

This new act saw a shift from:

- representative democracy to participatory democracy and with a greater leadership responsibility for local government
- a doctrine of "ultra vires" towards a "power of general competency".

There are now even greater financial management requirements, including this Ten Year Plan. The new Act also has a greater emphasis on sustainability i.e. for the benefit of the current and future generations.

This is Council's first Ten Year Plan prepared under the new Local Government Act 2002. It has been preceded by a process used to establish the district's community outcomes. These community outcomes have been important in preparing the activity plans for the services Council has chosen to provide and which appear in this Ten Year Plan.

I believe these are very exciting times for Rotorua District Council in that there is a major opportunity for Council to make a significant contribution to the social, economic, environmental and cultural wellbeing of the district to promote sustainable development.

This Ten Year Plan places an emphasis on:

- Contributing towards the community outcomes.
- Retaining all existing levels of service and in some cases increasing service levels.
- Improving lake water quality of the district's 14 lakes.
- Building Destination Rotorua as a community brand for the benefit of all residents.
- Continuing the development of activities that contribute towards the district's sustainable growth.
- Ensuring implementation of the Rotorua Regional Airport Master Plan i.e. trans-Tasman preparedness.
- Development of community facilities such as the Museum of Art and History and the Rotorua Energy Events Centre.
- There has also been a review of Revenue and Financing policy with particular emphasis on the rating policy.

These emphases have a significant effect on the operating surplus and total public debt. The programme put up in this Ten Year Plan includes all capital expenditure. The programme provides for a 3.2% rate increase and will see debt at $57 million for activities funded from general funds, $13 million for separately rated activities and $14 for the airport, in 2014.

Local Government Act 2002

After a two year policy development period, Parliament enacted the Local Government Act 2002 in December 2002. Local authorities have always been subject to statute and will now be relatively autonomous. However accountability to their communities has been strengthened.

The 2002 Act is a move from the prescriptive nature of the 1974 Act to the power of general competence that gives greater empowerment to communities as well as Council.

The Act requires local authorities to be more accountable to their communities. There is more flexibility in the decision-making process but local authorities must be open to influence and scrutiny by the community. This may lead to a shift from the current representative democracy to a more participatory democracy.

The Act charges local authorities with community leadership by:

- Requiring them to have a comprehensive view of community needs.
- Developing public policy that is robust and guides community development over the long-term.
- Empowering Maori to play a greater part in local governance.
- Using a sustainable development approach.
- A new approach to decision-making that requires a more participatory approach on Council's part.
- Using decision-making processes that are inclusive.

This Ten Year Plan presents our contribution.

Community Outcomes

The new Act 2002 requires councils to identify community outcomes not less than every six years. The purpose of these outcomes is to:

- Provide the community the opportunity to discuss its present situation and its future.
- Let the community prioritise in terms of Rotorua's future.
- Check how we are progressing towards our agreed outcomes.
- Help our community, other organisations and Council, to work together in a more efficient and co-ordinated manner.
- Influence and guide priorities in relation to the council and other organisation's activities.

Community Outcomes therefore provide overarching strategic goals that we and other organisations can use to guide our service delivery and resource allocation. They also promote closer working relationships to ensure resources are used more effectively in a coordinated manner.

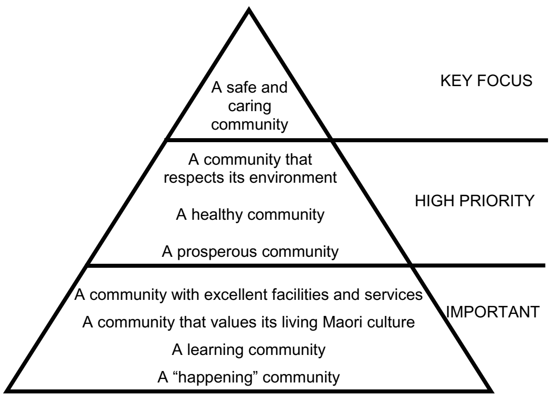
The way in which Rotorua District Council will contribute to promoting community outcomes will be through this Ten Year Plan.

Rotorua District Council worked closely with other Rotorua service delivery agencies and secured their support for the "Bright Future" Community Outcomes consultation process. Draft outcomes were formulated from information provided by the community through:

- The existing council strategic framework, which was the result of a large number of community and focus group meetings in 1996 and 1998.
- A review of a range of issues identified through recent consultation with the community, recent surveys, submissions processes, including analysis of submissions to Councils 1998 to 2003 Annual Plans
- A review of comments made in customer surveys and analysis of information taken from annual community satisfaction surveys.
- Supporting information from a number of sources, surveys, consultation documents, and reported statistics
- Relevant information from other organisations' strategy and planning documents. This included locally and regionally-based government agencies, health and education sectors, industry, Iwi and Maori organisations, the not-for-profit sector, local authorities, regional councils, sport and cultural organisations. Documents from cross-cutting groups such as youth and ethnic organisations were also used.

Using a communication strategy to widely consult on the draft outcomes the Bright Future project was able to validate the outcomes, prioritise them and gain information for their future review prior to 2006.

In prioritising the Community Outcomes, the innovative approach of STV (single transferable vote) analysis was used. This analysis informed us that although all outcomes were important to the community, a "Safe and Caring Community" was the most significant and important outcome.



In addition to identifying community outcomes and showing how council will promote them through this Ten Year Plan, we must also develop a framework to monitor the community's progress towards outcomes and report on this progress no less than every three years.

We are continuing to work with other agencies and organisations to develop a monitoring framework and also to explore ways in which we can work collaboratively to ensure our different service delivery is consistent, effective and aligned with community expectations.

Top Priority Outcome - "a safe and caring community"

The unequivocal top priority Community Outcome is a "safe and caring community".

Already work is underway to draft a ten year Community Safety Strategy which addresses five clear areas of focus identified by the community over the past year, and supported as priorities by Council. These include:

- Central Business District and surrounding reserves safety
- youth offending
- drugs and alcohol
- tourist safety
- capability building of community organisations dedicated to crime reduction and prevention.

Making Rotorua safer and more caring depends on a community wide effort. Effective collaboration, not only with Police, but with a wide range of stakeholders and partners will be the key to success through the decade. During the first three years Council will be taking a priority focus on working with others to improve safety in the CBD and surrounding reserves, including safety for visitors.

In addition Council's Community Assistance Policies will be reviewed to ensure that support to the not-for-profit sector is strategically focussed to enhance and support a "caring community", and Council's interest in promoting the values of good citizenship will be explored.

Te Arawa Participation

The new act requires local government to ensure Maori are able to participate in the decision making processes of the local authority. This is not new for Rotorua District Council. We have for many years had a standing committee of council with representatives of Te Arawa appointed to that committee. The committee's responsibility is to provide a Te Arawa perspective on all matters affecting Maori.

We are also working with Iwi to develop a memorandum of understanding, or protocol, to assist in maintaining clear lines of communication both ways.

A report later in this Ten Year Plan shows the means in which we are proposing to do this.

The Te Arawa lakes settlement package is another important milestone in the district history and a major achievement for the Te Arawa Maori Trust Board. Whilst this is a matter for the Trust and the Crown, Rotorua District Council has an important role to play in some areas. Council has established 4 principles to guide it when dealing with the Trust or the Crown on this matter.

They are:
1. Crown responsibility
2. Advocacy for Rotorua
3. Protecting future generations
4. Te Arawa relationships

The Central North Island (CNI) Treaty claim will have a potentially significant effect on the ownership of many significant resources of our district. Council is developing means of effective communication with the Office of Treaty Settlements and Iwi so that Council can be kept informed about this claim.

Staff

People are the most important asset Council has. They along with the leadership from His Worship the Mayor and Councillors ensure we achieve the high levels of community satisfaction.

I take this opportunity to thank all our staff for the effort and energy that they put into their jobs. This ensures Council continues to make the maximum contribution to our district's wellbeing.

It is with some sadness that I record Mr Paul Sampson retires from Council in July. In the 14 years with council as the District Engineer Paul has lead a number of major projects and policy initiatives. To note just some:

- City centre upgrade including government gardens
- Urban waste water treatment plan
- Lakefront development
- Significant contribution to understanding lakes water quality issues
- Major State Highway and local roading enhancement

- Significant risk reduction programmes
- National rural fire representation.

Each year reviews are undertaken to ensure the structure fits the strategies. These changes will include:
- Consent processing reviewed and a new emphasis placed on the administration of consent processing and a greater focus on policy.
- Event Venues have grown a capability to attract and manage more events
- Laboratory staff skills and numbers matched with WWTP analysis requirements
- Re-allocation of word processors from corporate services to departments where the processing takes place
- Travel consultants increased to ensure coverage in peak time and holiday/sick leave periods.

Each year there are additional responsibilities entrusted with local government by central government and generally without the funding to go with these responsibilities. Following are some of the additional duties this year, in most cases without funding.

- Local Government Act 2002
- Gambling Act 2003, and the Racing Act 2003
- Prostitution Reform Act 2003
- Civil Defence Emergency Management Act 2002

Council has made submissions on a number of these Acts when they were in the bill stage. Council has also put in place a number of strategies to ensure that new legislation will be integrated and applied to its day-to-day operations.

Upcoming legislative/regulatory changes flagged:-
- Review of the Food Act 1981, Health Act 1956, and related regulations
- Building Bill
- Land Transport Management Bill
- Local Government Law Reform Bill (No 2) and Supplementary Order Paper No 79, and Dog Control Amendment Bill

Lakes Water Quality

Investment in the Lakes

The water quality of some of our lakes has been a problem for some time. Research has been undertaken by a variety of bodies with considerable input by Environment BOP and Rotorua District Council in recent years. We are at a stage where major capital investment is now required. This will be much greater than ever previously anticipated.

As noted below, there has been a considerable advance in the science surrounding the Lakes. Council, Environment BOP and the government will be required to make a considerable contribution to various strategies that have been, or will be, developed in the future. We have included $75,000 per annum for the next 3 years to develop new understanding, particularly around engineering solutions, over and above the expenditure proposed for community sewerage schemes.

At this stage we have no clear understanding of the additional expenditure required, although it may be in excess of $100 million. This will be developed over the next 12 – 18 months. Once the research and analysis has been completed we will consult further with the community and other interested parties.

Joint Committee

Council, jointly with Te Arawa Maori Trust Board and Environment BOP, has been working with a range of community groups to develop action plans for the enhancement of the lake water quality. These action plans:
- Define the existing catchments' nutrient budget
- Determine what levels of nutrient inputs are sustainable
- Identify nutrient reduction targets
- Determine actions to achieve the targets
- Reach an understanding of the science.

The action plans employ a range of mechanisms for their success including regulations, research and monitoring, funding, capital works, education and communication.

Last year the first action plan was completed. This was for Lake Okareka. In 2004/05 an action plan for lakes Rotorua and Rotoiti will be developed. The remaining lakes will be addressed over the next 3-4 years

We have also meet with the Minister for the Environment to brief her about the high level of scientific and engineering understanding about:
- The issues that cause reduced lake water quality
- Solutions and their costs/benefits
- Costs of preferred options.

We have worked with the government to develop funding sources for the new proposed lake shore settlement community sewerage schemes. Some government funding assistance has already been approved.

Capital Expenditure

There has been a significant change in the overall budget for Rural Waste Water capital projects. There are two main reasons for this. They are:
- A change in the method of treatment for the Mourea/Okawa Bay area from a sequential batch

reactor (SBR) to piping the effluent into the Urban Waste Water Treatment Plant. This is now termed the Eastern Sewerage Scheme
- The inclusion of three new areas to be sewered with community schemes.

A separate Special Consultative Procedure was undertaken for the Eastern Sewerage Scheme. Each ratepayer affected by the proposal was contacted directly. The resultant decisions from this consultation were around the areas to be serviced, funding and contributions.

This Ten Year Plan has been prepared on the basis that the scheme is going ahead. However the funding mechanism will be determined in May 2004.

The tables below show the budgets and funding sources.

Eastern Sewerage scheme

By Catchment		
Mourea Sewerage		6,801
Okere		5,418
Share waste water Treatment plant Upgrade		1,415
		13,634
By Work Type		
Eastern Trunk line		5,725
Reticulation		2,134
Okere		5,417
Share of Overheads		358
		13,634
Funding		
Grants Ministry of Health	45%	6,080
Grants Regional Council	2%	306
General Rates	15%	2,000
Targeted Rate (Over 25 Years)	38%	5,248
		13,634

Other Lakes Sewerage schemes

Gisborne Point (Hinehopu)		1,600
Okareka Sewerage		4,425
Lake Tarawera		8,595
Hamurana		4,375
Total Capital		**18,995**
Funding		
Ex Grants Expenditure after 2004	50%	9,485
Ex General Rates	15%	2,849
Ex Targeted Rate Over 25 Years)	35%	6,661
		18,995
Total over 10 years		**32,329**

Growth Strategy

Throughout the 2003/04 Annual Plan process there was a strong request for Council to take a leadership role in promoting the economic growth of the district. Council agreed that a growth strategy that works in partnership with key parts of the existing economy was needed. It was also indicated through the Annual Plan process that community aspirations should be reflected in any growth strategy developed.

It was agreed that the development of the growth strategy should not be overly complex and should have emphasis on delivery and implementation. It was concluded that the growth strategy would not be a single strategy aimed at encouraging growth, but would be an overall framework with a common goal to be achieved by key research, reports and plans being developed at the moment.

The following summarises the challenges for the growth strategy:
- Establishing how all of the pieces fit together
- Establishing sound baseline information
- Completing of the Urban Basin Study is a priority
- Integrating other planning exercises that are happening
- Identifying inhibitors to growth
- Undertaking efficient consultation
- Giving community, council, and staff buy-in into process
- Identifying what ‘makes things happen’ in the community

It is now recognised that the growth strategy will be an umbrella document providing vision and leadership to address the perceived growth issues. Presently there is a number of different strategies, action plans, and policies that are addressing component parts of ‘growth’ for the Rotorua District. Examples of these are:

1. Visitor Industry Strategy
2. Retail Strategy
3. Urban Basin Study
4. Lake Action Plans
5. District Plan/Variation 12
6. Open Space Strategy
7. District Plan review
8. Rotorua Urban Transport Strategy
9. Economic Development Strategy
10. Good Health – Rotorua District
11. Events Strategies
12. Revenue and Financing Review
13. Community Outcomes Project
14. Long-term Council Community Plan
15. Risk Management
16. Smart Growth
17. Regional Settlement Strategy

18. Eastern sewerage scheme
19. Transit NZ strategies
20. Airport Master Plan/SOI
21. Waste management Plan

And many more.

Each of these components is commented on later in this overview

The growth strategy will be the umbrella document that provides the co-ordinating link for these strategies to achieve a common goal of growth for the district. The important point to note is that Rotorua's growth strategy is to promote and encourage new growth, not to manage existing and forecast natural increase.

The areas that need additional focus are:

1. Identification of what is inhibiting growth:
   - Local perception survey
   - Regional national perception survey

2. Agreed indicators for Rotorua to:
   - Determine the growth factors
   - Determine impacts of growth – and the various strategies

3. Integration Plan showing how the current plans/proposal have the correct synergies for growth and not simply redistribution

4. Overall Action Plan, timelines and alignment to budgets

Over the next 12 months all the pieces that contribute to the district's social, economic, environmental and cultural wellbeing will be assembled in a strategic manner in order that the community can see and have a view on the direction our district is going. This Ten Year Plan is part of that process.

Destination Rotorua

The need for an overarching brand depicting the attributes of Rotorua as a desirable place to live, to work, to invest in and to visit, has been identified. It presents an opportunity to optimise community ownership of a shared vision and a positive destiny.

The concept of **Destination Rotorua** has grown out of that need and a brand has been developed - evolving from the established and ongoing tourism marketing brand: "ROTORUA - *feel the spirit – Manaakitanga"* which will continue to be the main visitor industry brand.

We have also developed a brand for Council's contracting Business Unit - Castlecorp - to help promote the community to deal directly with the service delivery arm of Council.

DESTINATION
ROTORUA
ROTORUA DISTRICT COUNCIL

Visitor Industry Strategic Plan

Council has assisted the visitor industry, through Tourism Rotorua, to review the sector's Strategic Plan. A new draft has been prepared which started with a workshop last year and then a series of refinements through subsequent workshops, Rotorua Tourism Conference, Rotorua Tourism Advisory Board (RTAB), and portfolio group meetings. The RTAB believes there is widespread business support for the strategy which is strongly linked to the "community outcomes". The Strategy will makes a significant contribution to developing the concept of Destination Rotorua.

The Strategy identifies the issues necessary to ensure a "new focus" for vibrant growth around:

- Products
- Infrastructure
- Retail
- Domestic Tourism
- International Market Share
- Sustainable Environmental Best Practice
- Manaakitanga

The Strategy has 10 strategic directions:-

1. Brand
2. Environment
3. Maori Tourism
4. Marketing
5. Infrastructure and Transport
6. Product Development
7. Training, Upskilling and Education
8. Monitoring, Review and Research
9. Funding and Finance
10. Governance

The goal is to increase the annual direct revenue from visitors to Rotorua from $334 million in 2003 to $538 million in 2013 creating 2,600 new jobs through the implementation of the strategic plan.

This strategy is a key part of our district growth strategy.

Retail Strategy

Like the Visitor Industry Strategy, Council facilitated the preparation of the Retail Strategy during the year. Two workshops were held that identified key issues that led to a vision of:-
"To grow Rotorua's Retail economy, making Rotorua a leading shopping, dining and leisure destination"

The Strategy identifies key strengths for visitors:-

- Landscape
- Potential
- Big Box/Strip Retail Proximity
- Good infrastructure

There are 5 strategic directions around:-

1. Environment
2. Marketing and Promotion
3. Development
4. Infrastructure and Amenities
5. Funding and Management

Events Strategy

The Events Strategy has been prepared for both Council and community partners to ensure both the economic and community wellbeing opportunities of the district are maximised. The strategy contributes to the community outcomes and has 7 strategic directions around:-

- Internal Infrastructure
- Working with Partners
- Event Timing
- Promotion
- New Event
- Marketing
- Funding

The strategy has four stages to it:-

1. Providing the infrastructure to bid for and host events.
2. Establishing a group to advise.
3. Gathering funding.
4. Implementation.

This strategy will also make a significant contribution to the district's social, economic, environmental and cultural growth.

Destination Rotorua Targeted Rate

As part of the submission process to the 2003/04 Draft Annual Plan, Council received a comprehensive submission from representatives of the visitor industry. The submission emphasised the importance of tourism and visitors to the district's local economy.

Rotorua is considered a 'must do' destination for visitors to New Zealand. It is also a favoured holiday destination for New Zealanders. The submitters believed that Rotorua was falling behind other visitor destinations of New Zealand, and that there needed to be a new higher level of investment in the visitor industry.

On the back of this presentation from the visitor industry, Council was already considering the new brand of 'Destination Rotorua'. This was to acknowledge that we, as citizens of Rotorua, also obtain a significant gain from visitors, at both an economic, community and environmental level. Destination Rotorua is therefore an opportunity to contribute to the district's overall wellbeing.

Examples of how the city and district benefit from the visitor industry are:

- More supermarkets per population than other cities of similar size which leads to greater competition and hence lower prices.
- More overall sales i.e. GDP, because there are 8,000 additional people in the city each day.
- Investment in city streetscapes, reduction in graffiti etc.
- Infrastructure that is designed to benefit both residents and visitors that would not be developed and maintained to the extent that it is without the number of visitors to our city
- Increased sales of goods and services manufactured or grown in the district.

Council considered introducing a new targeted rate to be called the Destination Rotorua Targeted Rate. The rate would target the business group of ratepayers and will be used to fund a range of activities that has been identified in the relevant activity plan that includes events, economic development, and the visitor industry.

These activities provide a wide range of benefits to the community and, as in the past, the general rate will be used to fund much of these activities.

There is support from the Rotorua Tourism Advisory Board for a targeted rate. In addition the Chamber of Commerce, event organisers and Ready to Retail have indicated their support in principle.

However, the Council has resolved to not introduce the Destination Rotorua Targeted Rate at this stage and called for further investigation and reports for consideration during the 2004/05 year.

Rotorua Energy Charitable Trust

Rotorua Energy Charitable Trust (RECT) is a significant partner of this Council. The Trust's generosity has allowed Council to develop assets, and hence provide services, far beyond that which could otherwise be expected with the level of rates and debt that we currently have. Each year the Trust makes a considerable contribution to the wellbeing of the district through its grants to numerous worthy organisations.

It is very pleasing to note that RECT wish to celebrate their 10^{th} anniversary by making a $10 million dollar grant to the community through Council. This grant is a contribution towards the funding of the Rotorua Energy Event Centre. This is another example of RECT's ongoing level of commitment to our district.

I personally would like to thank RECT trustees and secretary for the insight and leadership they display in management of the Trust's substantial fund. It is a pleasure to see how our two organisations can work together in a coordinated and strategic manner for the benefit of the district.

Rotorua Regional Airport Ltd (RRAL)

The Airport is a vital infrastructural component of the Rotorua and wider Bay of Plenty/Southern Waikato Region's economy. Work done in 2002 by APR Consultants shows that the airport contributes $150 million of revenue to the Rotorua region. They believe this is a conservative estimate and it is possible that it could increase if the airport is developed to its full potential.

The Airport is 100% owned by the Rotorua District Council through a company which manages and plans separate from Rotorua District Council through a board of directors.

When Council purchased the airport, it was thought that between $3 million and $5.5 million of equity, and airport related debt increasing to $23 million, would be sufficient to see the airport develop a Trans-Tasman capability and to revitalise the appearance of areas such as the entrance, terminal and parking. The Council has given the Board a clear vision of:

"A user friendly, attractive airport 'hub' which meets the regional needs for domestic and Trans-Tasman airline services and is a safe, commercially viable operation optimising the social and economic benefits to the community shareholder"

What has been achieved?

Recent milestones of the Airport include:

- The Council's purchase of its additional 50% shareholding in July 2002.
- Stage 1 runway extension completed in March 2003.
- Introduction of Airport Development Levy.
- Airport Master Plan.
- Air New Zealand 737 services from Christchurch reinstated.
- Qantas 737 Christchurch service commencing from 1 April 2004.
- It is possible that Virgin Blue will initiate a domestic jet service into Rotorua in the medium term.
- Significant contribution to the district's social and economic wellbeing

These successes have put pressure on the Airport to accelerate development.

Capital

The table below sets out the estimated cost of the various capital expenditure elements of the current development plan which will see the airport in a "Trans-Tasman Readiness" state of readiness in 2005 and 2006

Capital Expenditure	Budget
Security fencing	750
Strengthen aprons	910
New apron/taxiway	3,475
Wetlands mitigation	100
New terminal Stage 1	2,900
Temporary gate lounge	100
Road and car park	2,100
Moving lessees	270
Plan change/designation/ resource consents	660
Northern starter	1,400
Property purchases	1,500
Other costs/consultants	50
Asset transfers ex airport	
Airport expansion	
Plus loan advance – carry forward	
Other Less Depreciation (funds provided above	
Total	**14,215**

The current budget beyond Trans Tasman readiness for the infrastructure required to support Trans-Tasman operations is approximately $16 million to $17 million. The demand analysis for Trans-Tasman services is currently being undertaken by RRAL. This will show the airport has the necessary cash-flows from the increased demand to support the additional investment.

Funding

The airport has revenue streams from the following sources:

- Airport landing charges
- Airline support e.g. baggage handling
- Terminal rental
- Other rentals from either land or buildings
- Car park charges
- Development levy

Other sources of funding could include grants and contributions from other organisations and individuals such as:

- the visitor industry;
- Environment BOP;
- other community organisations e.g. Rotorua Energy Charitable Trust, BOP Community Trust.

The airport makes a significant contribution to the district's social and economic wellbeing beyond that of a simple return on investment to the shareholder (Council). This wider public benefit comes from investment used to achieve the airport's vision. The airport is not able to fund this investment under normal commercial arrangements. Council is therefore required to supply these funds either as equity or a loan which will be on terms no more favourable than Council can borrow itself.

Structure

Council received a draft "Statement of Intent" (SOI) from the Board of Directors of Rotorua Regional Airport Ltd (RRAL) in February 2004 which was required to be commented on by the end of April. The draft SOI effectively proposed a number of key strategic questions for Council as the 100% shareholder of RRAL. These were:

- At what rate does the Council wish to see the airport redevelopment occur?
- What is RRAL's funding capability and what form of funding ought to be used?
- What is the optimum structure that will ensure efficient, effective governance and management (with appropriate control and direction by Council as the sole shareholder) while ensuring that commercial interest is managed in the optimum way, and other regulatory requirements remain satisfied at all times?

Council subsequently engaged consultants PricewaterhouseCoopers to review the draft SOI. This review was then used to comment back to the RRAL board on the draft SOI.

In order to proceed at the rate Council has agreed, it is believed the ownership of assets needs to be transferred from RRAL to Council.

The ownership and funding structures contained in the Draft Ten Year Plan only briefly contemplated the transfer of assets. Council determined that it should therefore undertake a Special Consultative Process under the LGA before finally taking this decision. The proposal was:

- That RRAL's infrastructure assets be transferred to Council so that they are owned directly by Council and;
- That RRAL continue as a stand alone company operating the Rotorua Regional Airport under an arrangement whereby the infrastructure assets are leased to it from Council.

The main reasons for the proposal were that:

- Council is in a stronger position than RRAL to raise capital and directly fund the necessary infrastructure redevelopment at a lower cost
- It makes best use of Council's existing asset management framework, resources and expertise
- RRAL, as the airport operating company, is able to operate in accordance with conventional commercial principles; and
- Once established, this structure should be simpler to administer than other alternatives.

The structure best addresses the necessary balance between the competing economic interests of RRAL and Council in a manner that offers the least administrative burden. It enables Council to manage the assets in accordance with its own day-to-day policies and procedures, but also in accordance with Council's vision for what is in the best long term interests of Council and the population it serves.

This structure is illustrated below:

RDC
(Infrastructure Owner)

Holds:
- Land and buildings
- Runway/taxiway/aprons
- Runway top surface
- Carparks and roading
- Security fencing

Asset Licence

100%

RRAL
(Airport Operator)

Holds:
- Airport operating licence
- Licence over infrastructure assets
- Building chattels
- Plant and equipment
- Furniture and office equipment
- Computer equipment

The ten year projections for RDC in respect of its infrastructure ownership reflect the following assumptions:
- Land and buildings, runway/taxiway/aprons, runway top surface, carparks, roading and security fencing are acquired from RRAL at market value on 30 June 2004;
- Approximately $5.8 million of equity is released from RRAL and applied against Council's total funding requirement;
- All further investment in airport infrastructure is undertaken by Council and is assumed to be debt funded at a rate of 6.75% (25 basis points lower than RRAL's assumed cost of debt funding);
- Council receives the development levy net of collection costs and receives the licence fee charged to RRAL.

Rotorua Energy Events Centre

In November 2002 Council commissioned Horwath Asia Pacific Ltd and Global Leisure Ltd to determine the requirements of sports, conventions, exhibitions and events for indoor space in Rotorua, the mix of space requirements to meet these demands and a preferred location for facilities.

The report was received in February 2003. The report concluded that to meet the needs of today and the foreseeable future, an additional four court games hall with event style seating for approximately 2,500 people together with a flexible auditorium space capable of accommodating 800 – 1000 people was required. The facility would require integration with the existing Sportsdrome in Government Gardens both physically and operationally.

In June 2003 the Rotorua Energy Charitable Trust provided Council with a commitment to a $10M donation towards the construction of a new multi-purpose Events Centre adjoining the existing single court indoor stadium, the Sportsdrome.

This generous contribution allowed RDC to commence this project with confidence, although it was recognised that the final design would more than likely require additional funding. A parallel project to generate more capital investment is underway.

The basic components of the building, incorporating the adjoining existing Sportsdrome, will provide space for conference and exhibitions that are too large for the existing Rotorua Convention Centre. It will also cater for concerts and banquet functions that have never really had an indoor venue large enough in Rotorua. The games hall, which will be able to accommodate 4 full size netball courts in community sport configuration will also be capable of being set out in centre court mode with a seating capacity of at least 2500.

The main hall will have an adjoining flat floor 'auditorium space' for large conference plenary sessions, whilst it is hoped to achieve a balcony of smaller 'committee rooms' that will double as corporate lounges overlooking the main hall as well as the unique views out over the Government Gardens and Lake Rotorua.

The central location adjacent to the CBD in the prestigious Government Gardens is seen as a key selling point of the new Rotorua Energy Events Centre.

Design and Budget

From registrations of interest four Design Consultants were short-listed and invited to provide concept design tenders. Boon Goldsmith Bhaskar Team Architecture's (BGB) proposal most closely met the requirements. The total cost of the project at this concept stage of the development is estimated at $16 million.

It must be noted this cost estimate is at a unit rate level and based on the concept provided by BGB. This will continue to be refined as the design is detailed and developed. This will then form the basis of a final estimate to be approved by Council prior to calling tenders for construction. A further and final cut off point will subsequently be reached once construction tenders are received and council will then be in a position to make the final decision in full knowledge of the fundraising that has been achieved at that time.

Fund Raising

A professional fundraiser has been contracted to leverage the additional contribution already committed to meet the projected estimate. This approach, which was adopted by Tauranga District Council in seeking capital to fund their Aquatic and Leisure Centre, has reportedly been successful in securing significant non-rates investment in the facility.

Council has agreed to contribute $4 million toward the project and will seek to raise a further $2 million from other sources

Operational management – costs and revenues

The income and expenditure flows have been estimated based on a model proposed by Horwarth Pacific Ltd and known costs of revenues of the Sportsdrome.

The demand assumptions made in the model have been drawn from the information gathered by Horwarth Pacific modified to reflect a more conservative, cautious view of the market. Hire rates for community use have been based on existing rates applicable at the Sportsdrome and market rates for commercial use.

The model predicts that although there will be a net operating surplus from the additional elements of the facility, there will still be a call on ratepayer funds, in addition to the existing operational deficit of the Sportsdrome, to cover depreciation.

With the exception of depreciation, the new Energy Events Centre will cost the ratepayer no more to operate then the existing Sportsdrome.

Council has agreed to proceed to the next stage of this project i.e. to prepare developed designs for tendering the physical works

Rates Review

Last year council agreed to undertake a rates review as a result of submissions received to the Annual Plan. This was also seen as an opportunity to review the other revenue and financing policies. A draft of the policy was submitted, ahead of this Ten Year Plan, to the community in February of this year for feed back. Council then received almost 400 representations and made some changes to reflect, in its view, the issues raised.

The details of the review and implications for ratepayers is set out in detail in the Rating policy section of this Ten Year Plan. The proposed new system is designed to achieve the following:

a) To provide relief for business properties in the Central Business District;

b) To exclude residential and small holding properties, up to 5 ha from the farming category and include them within the residential category;

c) To bring rates on small holdings into line. Some of these have been rated too low as compared with farming and residential properties. (This relates especially to rural residential and small holdings which are currently rated lower than farming);

d) To consider some relief for farming properties;

e) To consider whether it is appropriate to reclassify multi-unit residential properties as residential rather than business and reduce the rate;

f) To consider whether vacant residential land should continue to enjoy a differential that is 80% of that per developed land;

g) To consider whether rural residential and business land should continue to enjoy a differential that is 60% of the rate paid by their urban counterparts.

Financial Summary

This year there have been two major new items that have added to the debt level, and hence rates. They are:

- Rural waste water schemes and
- Airport.

Last year $7.7 million was provided for Okawa Bay/Mourea, Okareka and Hinehopu. As part of the increase in understanding of the science around our lakes water quality, it has become evident that other lake shore settlements will need to have community sewerage schemes as opposed to the present septic tanks. The communities are:

- Okere/Otaramarae
- Lake Tarawera
- Hamurana

These new schemes have added a further $28.5 million to the debt required.

A further $12.5 million has been added to total debt to provide for the airport terminal, aprons and runway enhancements.

The other reason for the significant change is the inclusion of more new capital projects. These projects can be broken into two types:

1. Those projects that were not included in last year's budgets but highlighted in the planning process, and amount to some $16 million. They are in the table below.

2. The budgets for asset renewal in the last three years of this Ten Year Plan are up on the previous projects in Long-term Financial Strategy as asset management plans gain comprehensiveness and new strategies are identified.

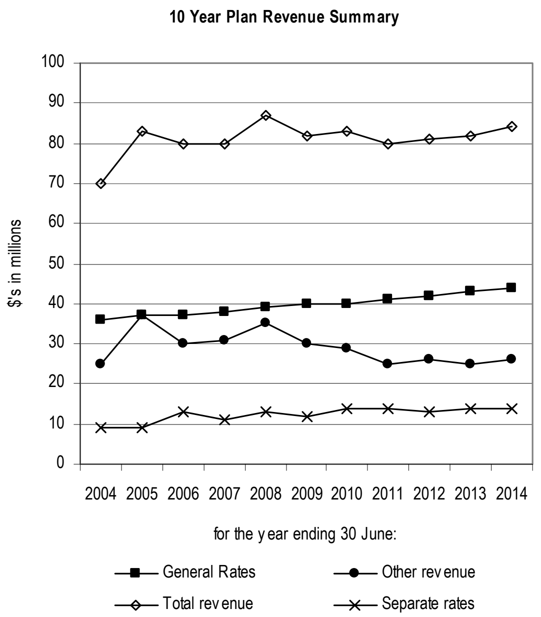
The balance sheet is changed around three key areas:

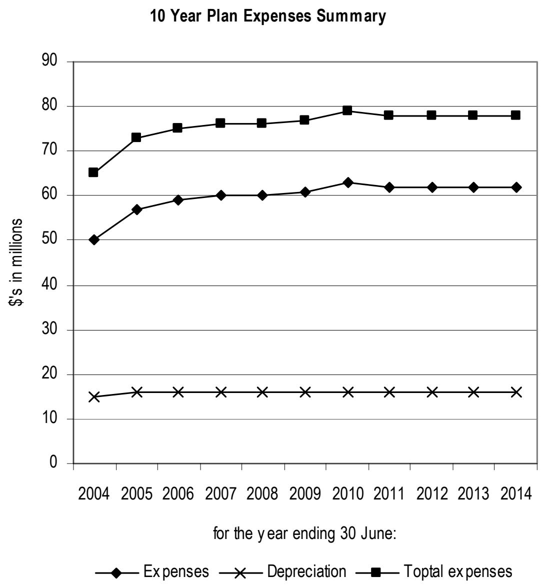
- Fixed assets
- Debt
- Surplus from operations.

All these matters contribute towards significantly changing Council's financial position over the next 10 years. However, it should be noted that the total debt is within Council policies and at the higher level does improve the intergenerational equity of benefit from the capital expenditure, but is still light when compared to earlier years. This provides an opportunity for future generations to make investment choices as well.

Income statement

for the year ending 30 June: *$'s in millions*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*
General Rates	36	37	37	38	39	40	40	41	42	43	44
Separate rates	9	11	13	12	14	14	14	14	14	14	14
Other revenue	25	35	28	30	33	28	29	25	25	25	26
Total revenue	70	83	80	80	86	82	83	80	81	82	84
Less:											
Expenses	50	57	59	60	60	61	63	62	62	62	62
Depreciation	15	16	16	16	16	16	16	16	16	16	16
Total expenses	65	73	75	76	76	77	79	78	78	78	78
Net Surplus	5	10	5	4	10	5	4	2	3	4	6



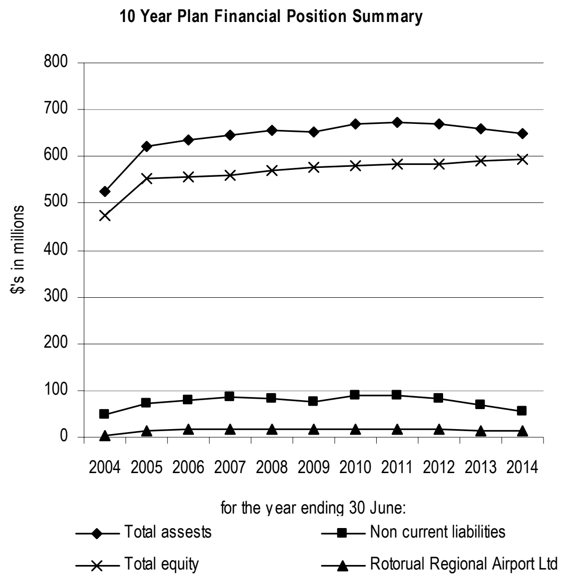


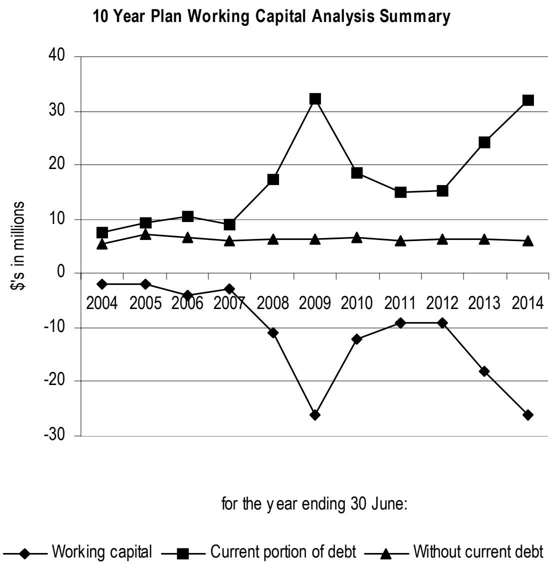
The main reasons for the increase in expenditure in 2005 over 2004 is normal inflationary pressures on the payroll, and increase in depreciation. These are covered of by increased rates revenue.

INTRODUCTION

Balance Sheet

for the year ending 30 June:	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
$'s in millions											
Working capital	-2	-2	-4	-3	-11	-26	-12	-9	-9	-18	-26
Investments	11	1	1	1	1	1	1	0	0	0	0
Fixed assets	513	624	639	648	665	676	680	681	678	677	675
Total assets	522	623	636	646	655	651	669	672	669	659	649
Non current liabilities	47	71	79	85	84	75	89	90	84	70	54
Total equity	475	552	557	561	571	576	580	582	585	589	595





Fiscal Policy

Overview

Council employs two key fiscal policy tools. They are the level of rate increase and the total debt at the end of this Ten Year Plan. On the one hand, general rates will increase each year by the level of inflation and growth in the rating base of the district. On the other hand the total level of public debt at the end of the Ten Year Plan needs to be kept at a prudent level.

Council has always expressed the level of rate increases as an increase in all rates, that is: general rates, uniform annual general charge, and separate (targeted) rates from water supplies, sewerage, and refuse collection. This is to ensure the community is not misled about the rate increase each year. This year it is 3.2%. However it should be noted that this does not mean the total rates bill for each rate payer will increase by that amount. For example not all rate payers receive a refuse collection service and are not charged for this service. This applies to all targeted rates services. You are referred to the Funding Impact Statement for a schedule of the various income sources for the next 10 years. Below are schedules, of the targeted rates for 2004/05

General Rate Increase

As noted, the rate revenue increase each year has generally been based on the December Consumer Price Index (CPI) which was 1.6% for December 2003.

Council allows for an increase in the rating base as part of the increase in rates revenue for the budgeting process. This increase is calculated on the basis of new lots from subdivision multiplied by the Uniform Annual General Charge and a notional land value for each new lot. In theory, by allowing for growth in the rate increase, there will be extra rates revenue from those new lots, but all other properties would remain the same.

The estimated growth for 2004/05 calculated at December 2003 is 0.50% based on 347 new properties. This is up on the previous year which was estimated at 0.24%.

In 2003 Council approved a new two year tender for electricity supply which will see electricity costs increase some $487,000 (approximately 1% of rates) per annum. This increase has returned electricity costs to the former level two years ago. At that time Council noted that the reduced electricity costs were likely to be short-lived and prices would rebound in future years. This is exactly what happened. Council at the time decided to use the savings for new projects that might otherwise not be able to be proceeded with.

Since then further increases in energy costs have been advised which are well above inflation. There is a general view that because of the shortage of electricity generation capabilities, New Zealand can expect real price rises every two years. An allowance of just under 0.2% has been provided for in 2004/05 with increases every alternate year of just under 0.2%.

Council has, over the years, steadily reduced the level of cash holdings. This cash has been used to do two things:

- **Balance Sheet Restructure**
  Council restructured its balance sheet so that there was no need to hold large cash reserves and at the same time higher levels of debt. Cash reserves were used to repay debt. This was a prudent financial measure that, overall, reduced the net cost of debt and Council's exposure to interest rate risks.

- **Rate Reduction**
  In both 2001/02 and 2002/03 Council has reduced cash as part of the rates calculation in order to continue with programmes but not increase rates. The table below shows the financial impact.

Year	$ millions	Rates Effect	Actual Rating Increase
2001/02	5.0	12.5%	2.9
2002/03	1.0	2.4%	5.2
	6.0	14.9%	

The effect of using these reserves has been to allow services to continue and projects to go ahead that, without the use of these cash holdings, would have required a rate increase over the two years of 14.9% over and above the 5.3% in 2002/03 and 2.9% in 2001/02. It should also be remembered that the projects increase depreciation and operating costs, hence future costs.

Council has been fortunate to have a number of community assets provided by a partnership with Rotorua Energy Charitable Trust (RECT). It must be remembered these assets have associated operating costs. There has been a considerable number of legislative changes that require new resources in order to respond effectively. On top of these additional costs, services levels have been improved in some areas. Finally, the CPI is a proxy for inflation that uses a basket of goods and services and measures the change over time in the price of these items. Other costs, such as construction, had index increases of some 8% last year and are currently running at 1.5% per month. For these reasons general rates have been increased by more than the previously agreed fiscal policy of inflation plus growth. Council could not continue with the same levels of services, customer satisfaction levels, significant new capital expenditure programmes and with rating base growth at modest levels, without the approved rate increase of 3.2%.

The table below brings together all the inflation factors for 2004/05 which shows that for Council to retain the real spending power for 2004/05 then rates need to be increased greater than “inflation plus growth”

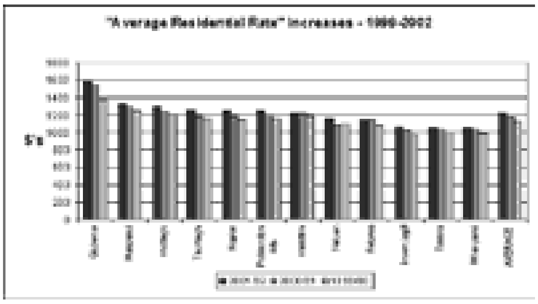
The table shows the general rate increase in recent years. It should be noted that since preparing the 2001 LTFS the following inflation data has been used which has increased costs and revenue accordingly:

Year ending 30 June:	2002	2003	2004	2005
Rating database growth	0.5	0.6	0.24	0.5
December CPI	4.0	1.8	2.74	1.6
Reserves etc	- 1.6			
Major capital		2.9		
Other inflationary pressures			0.32	1.1
Total rate increase	2.9%	5.3%	3.3%	3.2%

Comparison with Other Local Authorities

The table below is prepared from information included in the Napier City Council 2003/04 Annual Plan. It shows that Rotorua District Council had the third lowest rates for the comparator's groups. Some are similar in size to our Council so it gives an indication of perceived value for money. Other factors that should be taken into account before making any final judgement are:

- Level of long term public debt
- Condition of infrastructural assets of benefits has been shifted to future generations with debt.
- Level and range of services provided.



Long Term Debt

The other part of the primary fiscal equation is the total debt at the end of the 10 Year Plan. There are a number of reasons for this:

- To ensure the total debt is at a level where adverse interest rate fluctuations do not place Council at risk of having to increase rates beyond the community's ability to pay or that projects are not deferred or service levels reduced.
- To ensure there is intergenerational equity between costs of expenditure and benefits received. By using debt, some of the costs of activities can be moved forward into future years. This means that the ratepayers in those future periods will contribute towards some of the costs of assets which provide services over a number of years. This applies to all infrastructural assets which are valued at over $ 0.5 billion.

Council has also taken the view that by ensuring the total public debt is reducing over time, there will then be an opportunity for future generations to have some choices of projects and new services of their own.

To have debt below the optimum level ensures that Council has loan raising capability, within prudent financial management levels, in the event of an emergency. Emergencies could include Civil Defence, economic performance etc. Council already maintains cash of around $5 million for this purpose

Treasury Policy

Council borrows funds for capital expenditure. The level of borrowing is maintained at an amount consistent with the Ten Year Plan. Given the nature of the assets acquired from the borrowing, Council weights its borrowing to long term fixed interest securities. Other forms of borrowing may also be included in the debt mix, having regard to prevailing interest rates and anticipated interest rate movements.

The primary borrowing policy objective is to minimise interest expense consistent with the central treasury policy of risk avoidance. Council maintains a spread of debt maturities to minimise the risk of refinancing substantial parts of the debt portfolio at times of unfavourable interest rates. Interest rate risk management by hedge agreement can be used to provide further certainty to future interest expense.

Specific borrowing limits are applied:

- Gross interest expense not to exceed 15.0% of total rates revenue.
- Funds flow to cover interest expense at least 2 times.
- No more than $30 million of existing borrowing is subject to refinancing in any financial year.
- Effectiveness of performance is measured:
- Comparison of actual interest cost and rate against Annual Plan.
- Comparison of year end average borrowing rate and maturity profile against large commercial borrower.
- Council receives a report six weekly.

However, there is no formal policy on what the maximum debt should be.

Debt Profile for 10 Years to 2014

The debt presented in the graph below shows a significant variation between last year's LTFS and that proposed for this year. The main reasons are increase in new capital expenditure for:

- Growth
- Lakes water quality
- Service level improvements
- Airport.
- Increase in renewals in the later years of this Ten Year Plan as compared to last year's plan.

Determining the optimum debt level is a function of the following criteria:

- The need to maintain assets in a sustainable manner.
- Community ability to pay.
- Prudent financial management – risk.
- Benefits of doing the project now verses waiting – timing
- Council priorities
- Community expectations
- Influence of external agencies
- The Local Government Act 2002 requires a Liability Management Policy. The policy has been prepared on the basis of the previous Treasury Borrowing Policy.

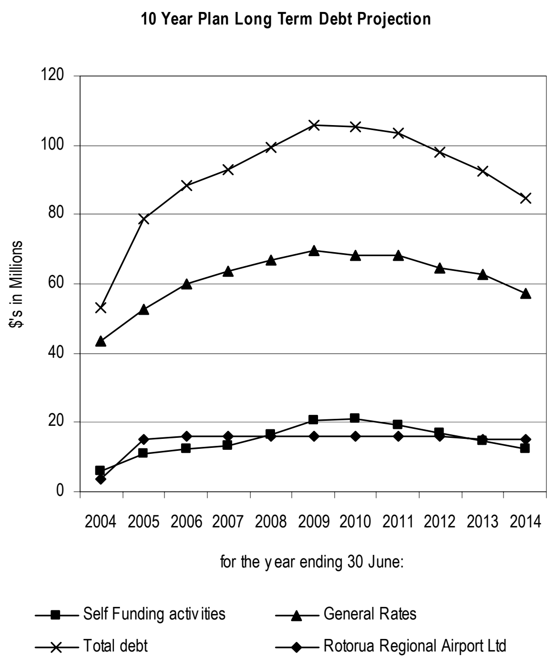
- This criteria is to ensure there is opportunity for both the present community and for the future. How to determine this is difficult as there is also a need to ensure intergenerational equity of services from assets, which are in part funded from debt.
- The deprivation index for our district is extreme – from very high to very low.

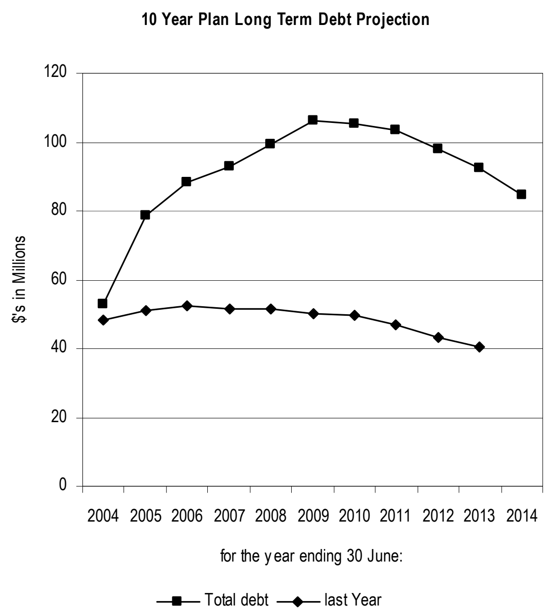
The table later in this report provides a matrix for managing the risk of borrowing and shows that Council can maintain a total debt of $120 million in 10 years. The comparison between debt last year and this year shows the level of uncertainty over the short term.

It would seem that a better way to determine the optimum level of debt is not to focus entirely on the question of debt in 10 years but to balance that with a range of other financial performance indicators. The table below will help to balance risk, sustainability and ability to pay.

It would seem that a better way to determine the optimum level of debt is not to focus entirely on the question of debt in 10 years but to balance that with a range of other financial performance indicators. The table below will help to balance risk, sustainability and ability to pay. The tables below show the total debt proposed

for the year ending 30 June *$'s in millions*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
LTFS 2013											
Self Funding activities	7.8	7.1	6.8	6.3	5.2	4.0	4.5	3.5	2.3	0.9	
General Rates	40.6	43.9	45.4	45.4	46.5	46.3	45.2	43.3	40.9	39.6	
Total debt	48.4	51.0	52.2	51.7	51.7	50.3	49.7	46.8	43.2	40.5	-
2014 10 Year Plan											
Self Funding activities	5.8	10.9	12.2	13.3	16.3	20.6	21.1	19.4	17.1	14.7	12.4
Rotorua Regional Airport Ltd	3.8	15.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	15.0	15.0
General Rates	43.4	52.8	60.0	63.5	66.9	69.4	68.4	68.2	64.7	62.6	57.4
Total debt	53.0	78.7	88.2	92.8	99.2	106.0	105.5	103.6	97.8	92.3	84.8



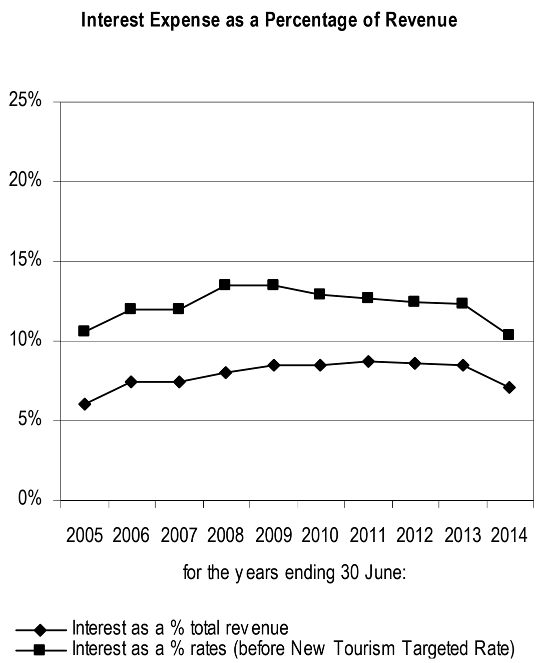


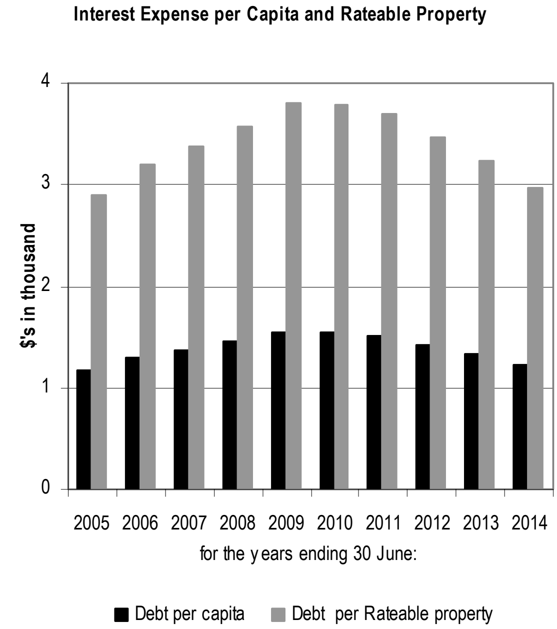
2014 Ten Year Plan Current and Term repayment analysis

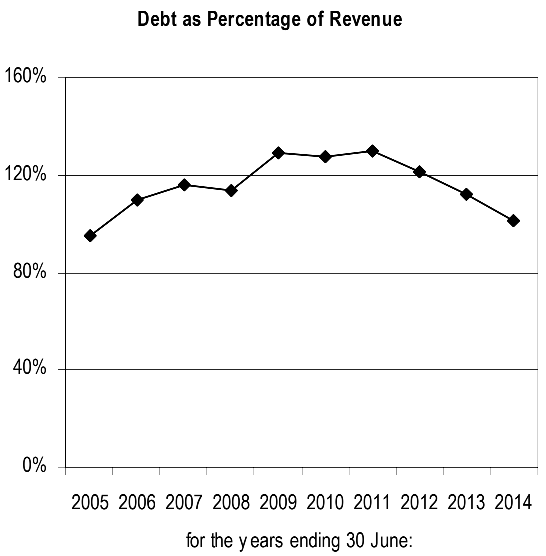
for the year ending 30 June *$'s in millions*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Current portion of term debt	7.5	9.2	10.6	9.0	17.4	32.4	18.7	15.1	15.3	24.2	31.9
Term debt	45.5	69.5	77.6	83.8	81.8	73.6	86.8	88.5	82.5	68.1	52.90
	53.0	78.7	88.2	92.8	99.2	106.0	105.5	103.6	97.8	92.3	84.8

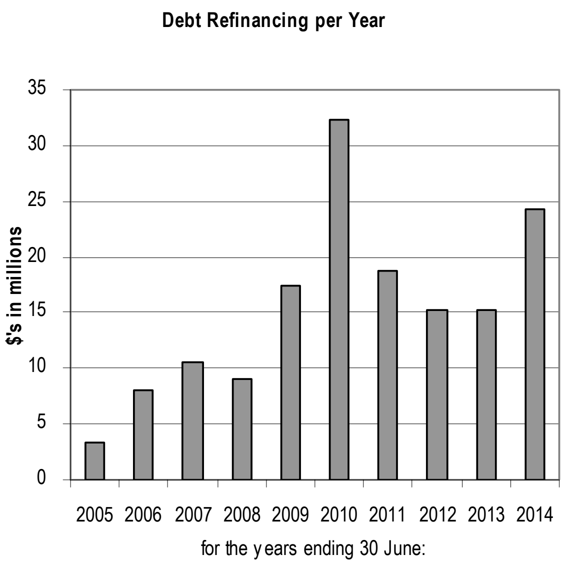
Council has its debt diversified with a range of financial institutions and manages the debt using a prudently developed treasury policy. There is sufficient working capital to ensure proper financial management. However the financial statements show the portion of long-term debt that is to be refinanced in the preceding year as a current liability. This debt will be refinanced at the time it become due for repayment. This therefore distorts the true working capital position. The graphs below show the treasury targets and working capital after adjusting for the current portion of term debt.

	Target	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt as a % of total revenue	150%	95%	110%	116%	114%	129%	128%	130%	121%	112%	101%
Interest as a % total revenue	15%	6%	8%	8%	8%	9%	8%	9%	9%	9%	7%
Interest as a % rates	20%	11%	12%	12%	13%	13%	13%	13%	13%	12%	10%
Maximum refinancing per year	$30 m	3.3	8.1	10.6	9	17.4	32.3	18.7	15.2	15.3	24.2
Debt per capita	2,000	1,169	1,299	1,369	1,454	1,552	1,549	1,516	1,425	1,334	1,229
Debt per Rateable property	4,000	2,894	3,208	3,373	3,573	3,807	3,788	3,698	3,467	3,239	2,977









Conclusion

I commend this Ten Year Plan to you. There have been some major strategic decisions made around the environment and lake water quality, regional economic wellbeing, the Rotorua Regional Airport Ltd, and the way these are funded. The review of rating systems and the increase in overall debt are integral to these key decisions.

We are appreciative of the high number of submissions which we received to the draft Ten Year Plan and these helped Council to make final decisions on the Ten Year Plan which was adopted on 28 June 2004.

This plan sets the direction for Rotorua for the next ten years and beyond.

Peter Guerin
Chief Executive