

financial summary

Financial summary

Introduction

As has been mentioned earlier in this section, the economic forecast for the next one to two years has had a significant influence on preparation of the Ten Year Plan and budgets. There has been considerable scrutiny of budgets by management and elected members.

Highlights of the financial information include:

- A 2% increase in general rates revenue required for 2009/10 (after allowing for growth in the rating base) and 3.5-4% (or within 1% of CPI) for the remaining 9 years. Council has also changed the rating system and this will mean that all ratepayers will see a new targeted rate called Roading on their rates notices. Also included is a new targeted rate for business called Business and Economic Development. However, all ratepayers will see a decrease in the general rate portion.
- Fees and charges increasing by around 3% per annum.
- Targeted rates for water, refuse and sewerage increasing by 3% per annum over the 10 years. However, individual targeted rates for the different schemes, particularly water, may vary between 0% and 14%.
- Council debt, after allowing for inflation, will decrease from \$139 million in 2009/10 to \$113 million by the end of 2018/19.

The balance of this section provides a summary of the financial statements and explanation of the big changes.

Funding Options

There has been careful scrutiny of all costs in an effort to keep rate increases as low as possible. Council is taking a 'steady as she goes' approach to the current economic recession with the view that it is important to:

- Keep moving forward with current commitments eg Civic Theatre upgrade, sewerage schemes and extensions to the museum
- Maintain existing levels of service in most areas
- Explore a range of new projects where funding partners or contributions can be found.

The council believes that the 'steady as she goes' approach is prudent, and provides a balance between affordability and ensuring the district develops and prospers.

Council's operations are identified under five groups. These groups are detailed in the Activity Plans section of the document and are:

- Governance and Strategic Direction
- Social and Cultural
- Environmental and Regulatory
- Tourism and Economic Development
- Infrastructural.

In summary, Council's financial strategy outlined in this plan is to:

- Spread capital expenditure, as much as possible, over the ten years.
- Limit capital expenditure on lifting levels of service. Less than \$95 million of the forecast \$488 million is related to improvements in levels of service and \$72 million is related to new sewerage schemes.
- Reduce internal costs to keep rates increases as low as possible. 2% is proposed for 2009/10 and between 3.5-4% (or within 1% of CPI) for the remaining 9 years.

- Increase fees and charges annually by at least CPI. In recent years some user fees have not moved at all while others have increased significantly every few years.
- Pay off high levels of debt for self funding reserves more rapidly over the ten years of this plan through income or targeted rates, eg airport and the self funding accounts for water and wastewater.
- Fund renewal requirements to maintain our assets in their current condition but not fully fund depreciation or build up cash reserves.

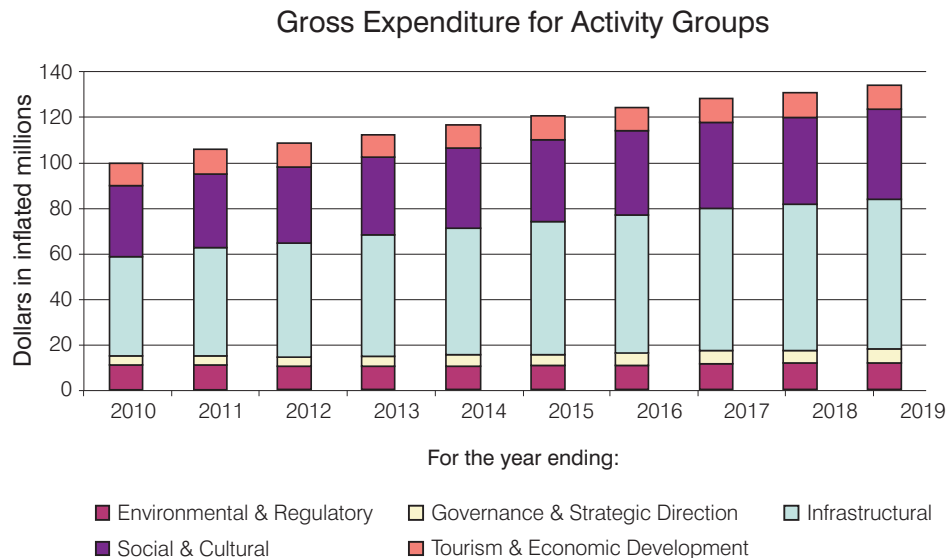
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Operating Income and Expenditure

The council is forecasting that its operating expenditure will increase from \$99 million to \$134 million (or approximately 35%) between 2009 and June 2019. These increases are a result of:

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

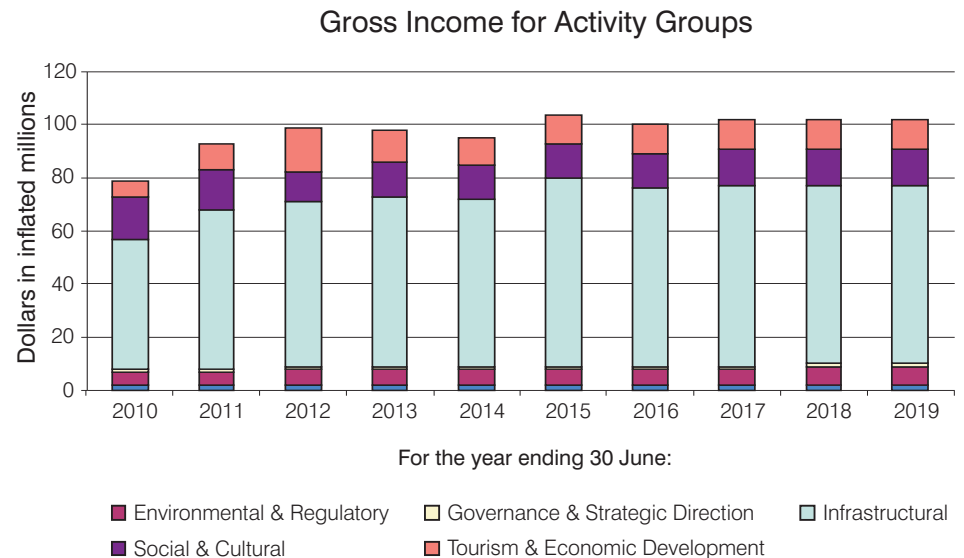
The following graph provides a breakdown of forecast gross operational expenditure, by activity group.



Council's revenue is forecast to increase from \$79 million to \$103 million (or approximately 31%) between 2009 and June 2019. 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 - for projects provided by external agencies or bodies
- Growth - in visitor and resident use of services.

The following graph provides a breakdown of the forecast gross income by activity group. It excludes general rate revenue.



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Capital Expenditure

Over the next ten years Council is forecasting to spend \$488 million on capital expenditure. Of this \$172 million is for ongoing maintenance (renewals) of assets. Renewals are those parts of the infrastructure that need replacement from time to time and are effectively expenditure to ensure the infrastructure can continue providing the level of service it has in the past. This is a normal part of wear and tear of any infrastructural asset. There is a good understanding of component assets and their economic lives, so it is reasonably straightforward to plan and budget for their replacement.

\$173 million is for growth related expenditure. Expenditure on growth assets is to provide for increased demand beyond the assets' current capacity, and \$65 million is funded from development contributions. Council uses borrowing to fund capital expenditure and over time recovers the cost from developers.

Backlog expenditure is required to return the infrastructure's capacity back to previous service levels. \$48 million is forecast through the Ten Year Plan.

\$95 million is allocated for increases in levels of service for other assets and is funded by loans.

Council is proposing to invest \$84 million in community infrastructure and \$349 million in utilities infrastructure.

Capital Expenditure by Type

For the year ending 30 June:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<i>Dollars in millions</i>										
Renewal	18	19	16	16	19	13	14	17	18	22
Backlog	8	10	12	12	2	1	1	1	1	1
Growth	18	26	18	12	25	33	13	13	13	1
Levels of Service	28	16	13	6	6	7	7	5	4	4
Total	71	71	59	45	52	54	35	36	37	28

Capital Expenditure by Council Group

For the year ending 30 June:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<i>Dollars in millions</i>										
Governance & Strategic Direction	5	4	1	2	2	3	-	1	-	-
Social & Cultural	19	14	12	6	6	4	4	5	8	6
Tourism & Economic Development	7	1	1	1	1	1	1	1	1	1
Infrastructure	37	50	43	34	40	45	28	27	25	19
Castlecorp	2	1	1	1	1	1	1	1	1	1
Total	71	71	59	45	52	54	35	36	36	28

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Council Debt

Loans are important tools used by local government to ensure fairness in funding capital expenditure over the life of assets. It is a requirement to ensure that the benefits of an asset are funded by both today's ratepayers and future generations proportionate to the benefits they receive. Loans are the only practical way of achieving this.

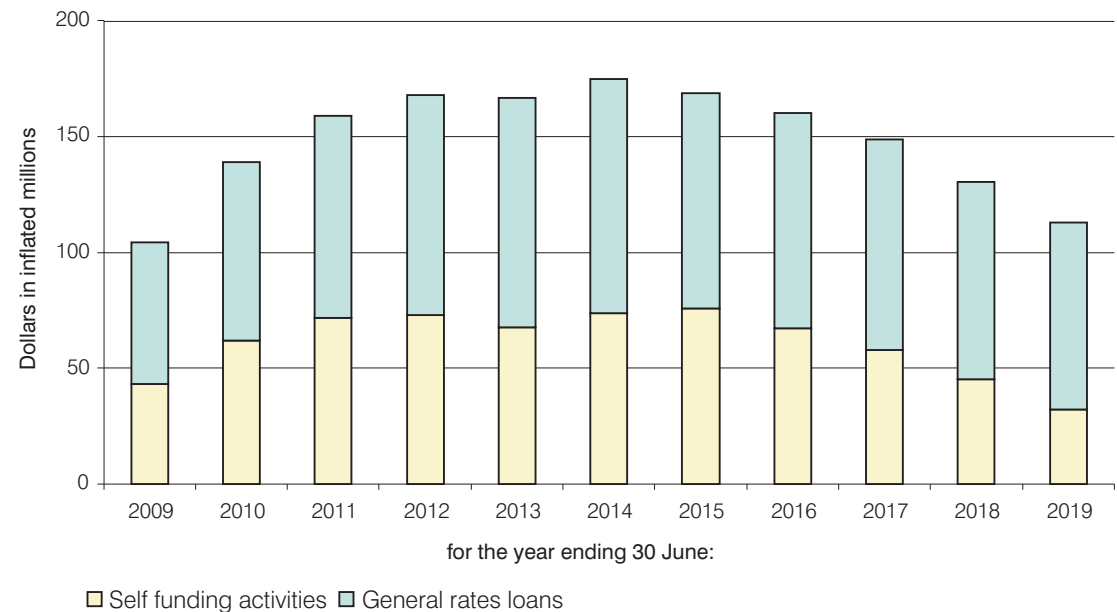
The long term debt is expected to increase from \$139 million in 2010 to a high of \$175 million in 2014. This is reduced to \$113 million in year ten of the Plan. The main reasons for the increase in debt are linked to Council's capital expenditure programme which includes \$201 million of expenditure over the next 3 years and then a major investment in the Victoria Street arterial commencing in 2014. This is discussed further in the Infrastructure Group Activity Plans. The debt is generally that associated with the self-funding activities such as wastewater and water.

The overall long term debt starts to reduce in the last 5 years of the Ten Year Plan because:

- the assumption that rates will increase by between 3.5-4% (or within 1% of CPI). This allows more debt to be repaid over the latter years of the Ten Year Plan.
- in the latter years trans-Tasman scheduled services increase providing greater surpluses which are used to reduce the self funding account debt balance.

Total Long Term Debt

as at 30 June	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<i>Dollars in millions</i>										
Reserve Accounts	62	72	73	68	74	76	67	58	45	32
General Rates Loans	77	87	95	99	101	93	93	91	85	81
Total debt	139	159	168	167	175	169	160	149	130	113



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Prospective Statement of Financial Performance

for the year ending 30 June	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<i>Dollars in millions</i>										
Revenue										
Rates	34	35	37	39	41	43	45	47	49	51
Other revenue	79	93	98	97	95	103	100	103	102	103
Total revenue	113	129	135	136	136	146	145	149	151	154
Expenditure										
Operating	68	70	72	74	77	79	84	87	90	93
Finance	7	10	11	12	12	12	12	11	10	9
Depreciation	24	25	26	26	28	29	29	29	30	31
Total expenditure	99	105	109	112	116	120	124	128	130	134
Surplus for year	14	24	27	24	20	26	21	21	20	20

The prospective statement of financial performance includes the following headings:

General rates

Rates include the General Rate and the Uniform Annual General Charge (UAGC). Council is proposing to transfer Transport and a portion of Events and Venues, Economic Development and Tourism/Marketing costs from general rate to targeted rates. The income from these targeted rates is included in other revenue.

Other revenue

This includes all targeted rates (water, refuse, sewerage, roading and economic development), fees and charges, and all capital grants and donations. These rates have been increased by at least CPI in most cases. There are also new targeted rates proposed for Brunswick, Brunswick (Stages 4 & 6) and Rotokawa in 2009/10 to fund a share of new capital expenditure required for the eastern sewerage truck main to the Urban Wastewater Treatment Plant, and provide additional capacity.

Operating

Operating expenditure increases by the relevant cost factor over the ten years of the plan (refer to the Adjusters table on page 12 of Volume 2 of this Plan under the Significant Forecasting Assumptions section).

Finance

Interest costs fluctuate with overall debt levels. The average cost of new borrowing is assumed to be 7%. This is very conservative at present, given that Council can currently raise loans at less than 6%. However it is considered reasonable as an average over the next ten years.

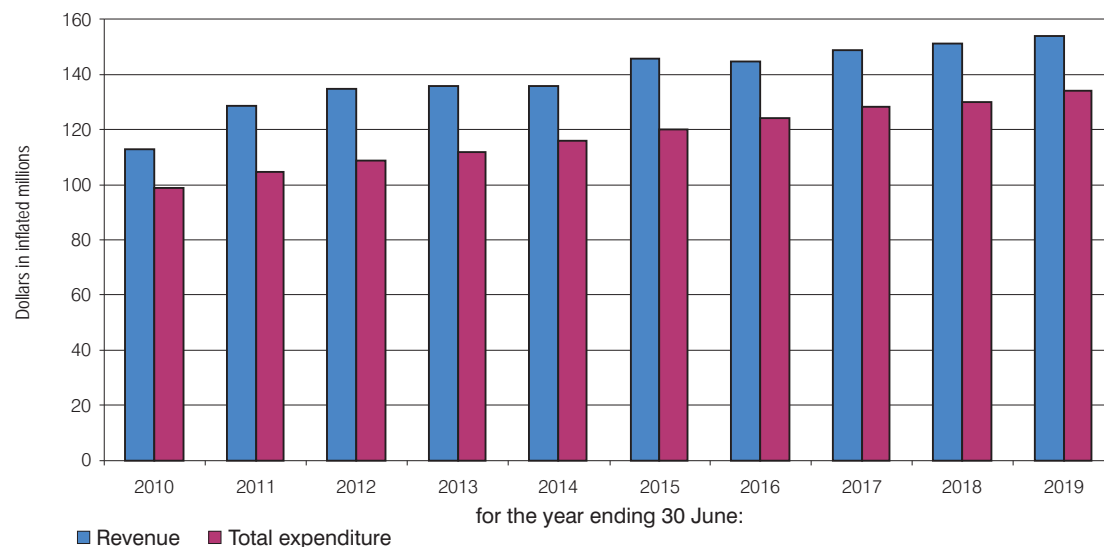
Depreciation

This non-cash cost increases over the next ten years and reflects the building of new assets and the replacement of assets at the end of their useable life.

Surplus

Council has budgeted in a prudent financial manner. The budgeted surplus is required to fund the renewal of assets, repayment of debt, and reserves for self-funding accounts. Council believes it is prudent not to fund all the depreciation expenditure.

Revenue and Expenditure Comparison

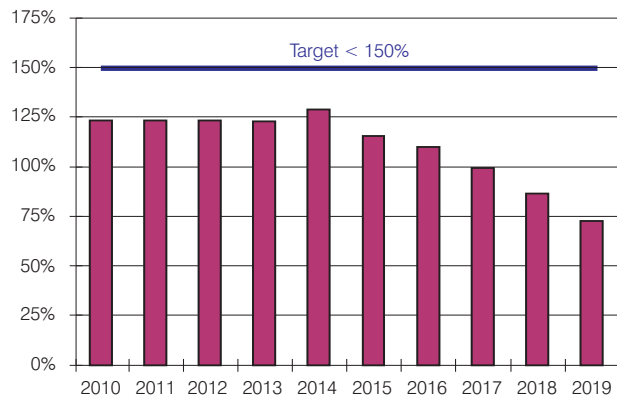


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Treasury Policy Performance Targets

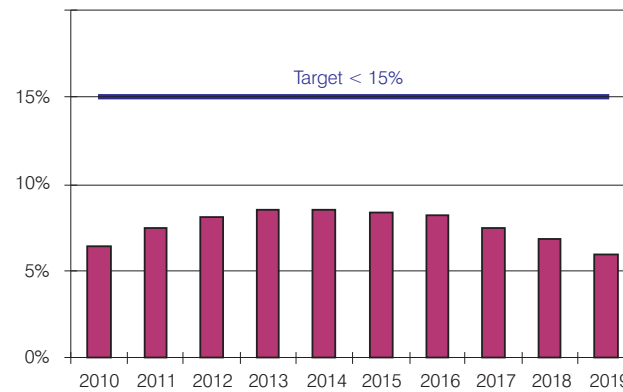
Council's Treasury Policy contains a number of performance targets to ensure borrowing limits are realistic in the current forecast financial climate. Borrowing limits and debt maturity targets help to minimise the Council's financial risk. The following six graphs outline Treasury Policy targets and Council's forecast position over the ten years.

Debt as a % of total revenue



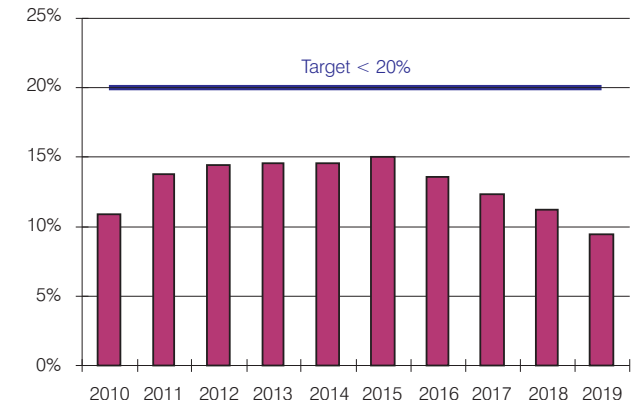
For the years ending 30 June:

Interest as a % of total revenue



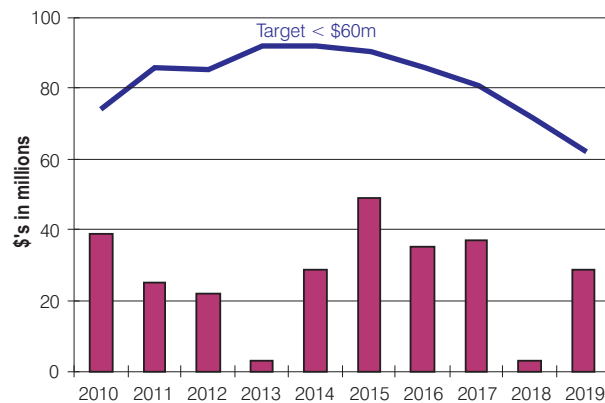
For the years ending 30 June:

Debt as a % of rates revenue



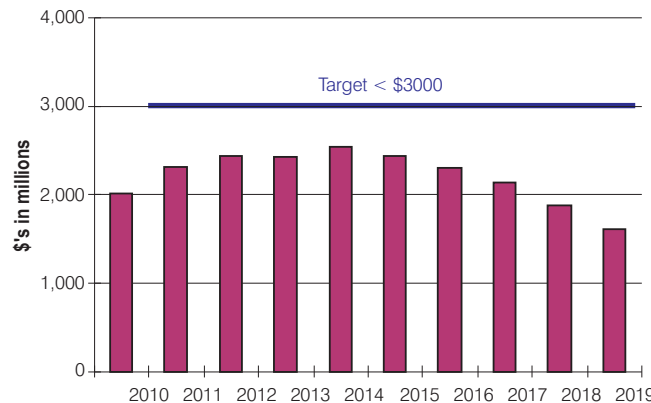
For the years ending 30 June:

Debt refinancing per year



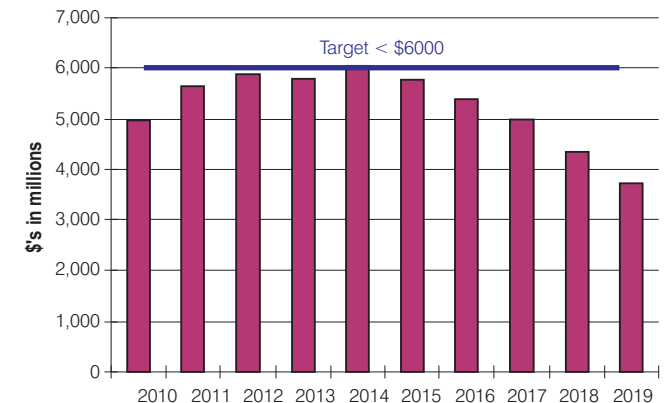
For the years ending 30 June:

Debt per rate payer



For the years ending 30 June:

Debt per rateable property



For the years ending 30 June:

Key Changes from 2006-16 Ten Year Plan

The majority of differences between the 2006-16 Ten Year Plan and the 2009-19 Ten Year Plan are summarised below:

- Community sewerage schemes proposed for Brunswick/Rotokawa, Okareka, Okere/Otaramarae/Whangamarino, Hinehopu/Gisborne Point, Hamurana, Tarawera and Rotoma did not proceed as quickly as planned because of delays in discussions with the Crown over a government grant, which was received in April 2008.
- It was expected that the airport would have trans-Tasman services established by 2008. However, because of delays in receiving necessary designations and consents, construction of the additional runway and strengthening was delayed by two years.
- It was proposed to establish a capital value based rating system. However this has not proceeded and a composite system that includes both capital and land value, along with additional targeted rates, has been developed. The proposed Rating Policy will be the subject of further consultation as part of this draft Ten Year Plan process. The policy is outlined in detail from page 59 in Volume 2 of this document.
- Council has not made the progress it has anticipated on development of new or additional cemetery plot space. This has been because of the difficulty in reaching an agreement over appropriate valuations for the lease of land.
- Council's staff numbers have generally remained static, limiting resources available to complete some projects.

- There have been some minor changes to funding and financial policies. They are:
 - A review of the Development Contribution Policy. After discussion with developers and consultants, the drafting has been altered to improve readability;
 - The Development Contribution levy on each new residential lot has been increased approximately 5.7%. This is the first increase in Development Contribution levies for three years and reflects the change in costs of growth capital;
 - The Reserve Contributions Policy has also been refined to remove ambiguity about the use of the contributions. These are for the purposes of purchasing land only;
 - The present Treasury Borrowing Policy has been expanded to include ratios of debt to total revenue at 15% and debt per property and population.
- The significant forecasting assumptions have been expanded in this Ten Year Plan to include:
 - A procurement review that has been undertaken and which has led to significant financial savings,
 - Inclusion of an assumption around the effects of climate change
 - Possible implications on Rotorua District Council of the Emissions Trading Scheme.

Changes in Levels of Service

In order to meet community expectations and the affordability test, there have been a small number of changes in levels of service. It should be noted that some of these service level changes have already been signalled in previous Ten Year Plans or Annual Plans.

Below is a summary of the changes:

- Redevelopment of the jetty and operators' accommodation at the Lakefront.
- Rotorua Regional Airport runway being lengthened and strengthened to accommodate aircraft for trans-Tasman air services.

- A number of roading projects that are a combination of providing for district growth and an improvement in levels of service. They are: Victoria Street arterial, Lake Road four-laning and \$1million of rural seal extension.
- Extensions to the Rotorua Museum of Art & History to complete the building to its original design. This will increase the capacity of the Museum to have more exhibitions, both touring and permanent.
- Improving district recycling services.
- Sewerage schemes for lakeshore communities and Mamaku will be an improvement in service for most properties in respect of their reduced effect on the environment.
- Community grants have been reduced by \$50,000 per annum.
- Development of the Waste 2 Gold pilot plant for the conversion of waste carbon into useable energy.
- Substantially upgrading some parts of the urban stormwater system to address a culmination of 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.
- Council has established a Grow Rotorua Development Fund for 2009/10 and 2010/11 as an economic stimulus initiative.
- Economic Development has received additional funding in 2009/10 for attracting inwards investment and wealth creation initiatives, and CBD revitalisation and Lakefront development integration.
- Four new skate parks (two in 2010/11 and two in 2012/13) in the western suburbs.
- Landfill methane gas flaring initiative, offset by sale of carbon credits to NZ Government.

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Support Services (Overheads)

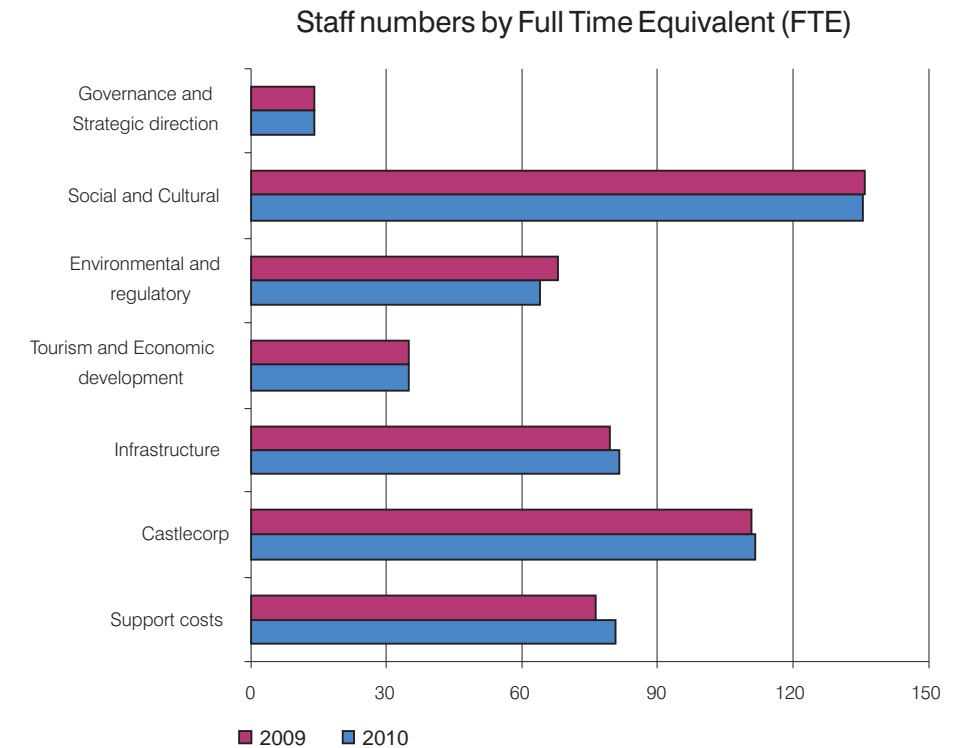
As part of Council's procurement review, operational efficiency gains and changes in levels of service, there has been a substantial reduction in the overall cost of the support services activities that support 'end services' such as roading, water supplies and the museum. The table below shows the changes between the 2008/09 Annual Plan, and the first year of the Ten Year Plan (2009/10). These are one-off cost reductions and are not expected to be repeated in subsequent years of the Ten Year Plan.

Net Support Services Costs	2009 Annual Plan	2010 Ten Year Plan	Variance to 2009 Annual Plan	
<i>Dollars in thousands</i>				
Corporate Administration	1,901	1,376	-525	-28%
Customer Centre	-	951	951	-
Finance	2,759	2,443	-316	-11%
Human Resources	809	752	-57	-7%
Information Management	972	1,123	152	16%
Records	891	402	-489	-55%
Land Information Services	751	601	-150	-20%
Information Technology	2,099	2,096	4	0%
	10,181	9,744	-437	-4%

Previously overheads were allocated to other support services and to end services, which proved a complicated system. The allocations have now been simplified. Overheads are now only allocated to end services, ie water supply, parks and recreation, building services and tourism. The result has seen both increases and decreases in end service overheads.

Staffing

Council employs 522 fulltime equivalent staff to assist with the delivery of services at levels agreed to in the Ten Year Plan. To achieve this, the performance framework is translated into specific targets for group directors, activity managers and then to all staff. To achieve the levels of service with the resources available, staff need to be high performers. We achieve this by recruiting, retaining, training and promoting the right people into the right positions.



Prudent Balanced Budget

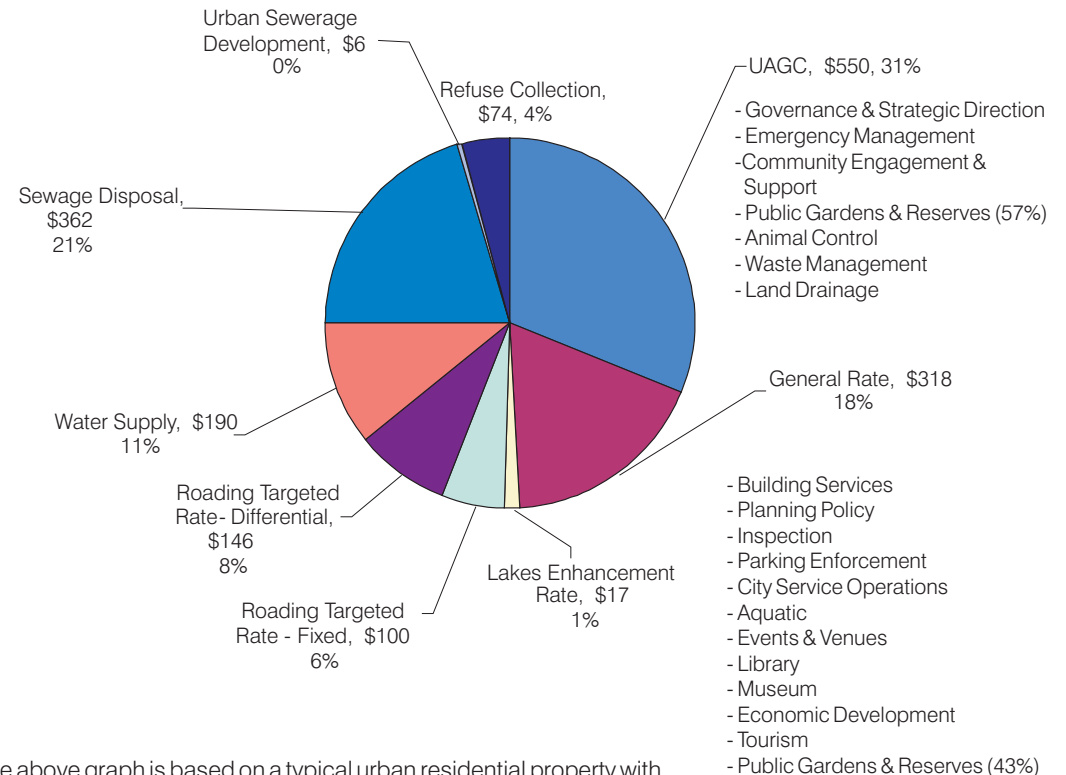
A requirement of local government is to use prudent financial management principles. One of those principles is that income must equal operating expenditure (and operating expenditure includes non-cash items such as appreciation). This is described as the balanced budget. However if a council believes it is prudent to not have a balanced budget, ie that an operating surplus is not required, it must make a conscious decision to that effect. The decision must have regard to the fact that it is a prudent decision and has considered levels of service and useful life spans of assets, and that it is an equitable decision. There are strong grounds for not having a surplus every year because that would build unnecessary cash reserves. Council's asset management plans ensure that the depreciation necessary to fund periodic renewals is more than adequate.

Integrated Planning

There is a particular emphasis throughout the planning process on integration between Council and other agencies of Rotorua and the wider Bay of Plenty/Waikato regions.

Discussions are ongoing with Environment Bay of Plenty about establishing more formal integrated planning structures to support current informal and formal processes. Examples of informal structures include technical working groups addressing integration between the Bay of Plenty Regional Policy Statement and the Rotorua District Council District Plan Review. Formal structures include the Rotorua Lakes Strategy Group, Bay of Plenty Regional Land Transport Committee, Land Use Futures Board, and Rotorua Air Quality Joint Committee. This concept will be explored further over the next year.

Rates - How they are spent



The above graph is based on a typical urban residential property with an average land value of \$130,500 and capital value of \$275,000.

This sample property would pay annual rates of \$1,762 (including GST). This excludes the rates paid to Environment Bay of Plenty.