Mahere Pae Tawhiti
Long Term Plan

2018 -2028

HĀPAITIA

uplifting our community

Wairoa District Council

RARĀNGI TAKE – CONTENTS

WAIROA

HE KARERE NŌ TE KAHIKA ME TE TUMU WHAKARAE - MESSAGE FROM THE MAYOR & CHIEF EXECUTIVE OFFICER

Mayor Craig Little and Wairoa District Council CEO Steven May.

'Nā ngā pakihiwi o ō tātau tīpuna, ka taea e tātau te titiro whakamua.'
'From the shoulders of our ancestors, we are able to see the future.'

Hāpaitia - Uplifting our community and planning for future generations - is the focus of the 2018-28 Long-Term Plan. Our vision for the next 10-years is around improving our environment, sustainability, pride and community involvement.

We will continue to focus on growing our population, transforming our district, and delivering a world-class service. We are all aware of the challenges we face; our rural isolation, our population and demographic profile, and our ageing infrastructure. Through this plan we are seeking to overcome these challenges in a prudent, affordable, and creative way. Economic development remains a key priority while maintaining our levels of core services and infrastructure to provide a foundation for strong and resilient communities.

This year's projected average rates increase is 4% and an indicative 3.4% over the ten years of the plan. We are excited about our district's future. We have tagged some important issues that will strengthen our community, while trying our best to minimise rates increases and deliver the best services possible, both now and into the future.

This Long-Term Plan marks the launch of one of the most significant infrastructure projects Wairoa has seen in 30 years with $6.5 million tagged for a waste water overhaul. A new Wairoa wastewater discharge consent application will be lodged with the Hawke's Bay Regional Council this year. Expenditure will include renewals of the wastewater reticulation system, renewal works on the oxidation ponds and consent process development and works.

The application is a community-led best practicable package that involves modification of the existing wastewater facilities and an ongoing commitment to a river health partnership strategy.

Environmental sustainability will also see changes to the Wairoa landfill and recycling centre creating a cost-effective delivery whilst reducing the burden across all ratepayers and a greenwaste and recycling centre established at Mahia to improve the service.

Another significant change is around the roading differential to recognise the impact that forestry has on roading. Historically this has been picked up by the rural ratepayers. We have increased the forestry differential for properties 100 ha and over weighting from 1.54 per rating unit to 5.0. We believe this is the actual cost of keeping roads used by forestry maintained.

Other core service investments will see a bridge strengthening programme which will ensure the district's roading network meets Central Government requirements and provide resilience and economic benefits for current and future land use in the district. We commend this Council and staff for having the courage to tackle these issues head-on with the best of intentions. We also thank our community for providing feedback during the pre-engagement stage and through the submission process.

We know that we have to really consider the need to increase rates, but in order to maintain levels of service and if we are serious about investing in our future these increases are unavoidable. We will keep this as affordable as possible by not rating for some depreciation, spending investments wisely, and using borrowing to fund long-term infrastructure.

Council expects to incur accounting shortfalls from 2023 onwards and these are likely to continue for 10 years - its investment portfolio will be spent and borrowings will more than treble compared to the current level. Our Financial Strategy shows we will use less than 60% of available debt capacity, and this will continue for 30 years and beyond. As members of the Local Government Funding Agency and through our existing debenture trust deed we have access to competitive fixed borrowing rates for the long-term.

We know there are inevitable risks associated with this approach. If interest rates were to increase by 1%, this would mean a 1% increase in rates. If we had to borrow another $1 million to reinstate some key infrastructure this would equate to 0.5% on rates.

However, we've done our sums and we have reviewed our asset management plans. If something goes wrong, or something unexpected happens, we have allowed sufficient capacity in our funding plans to allow for this. This is responsible and prudent planning that demonstrates we have considered all aspects - including risk management. Our key infrastructure assets are insured and we have support from key funding agencies such as NZTA and the Local Authority Protection Programme.

The award of long term operations and maintenance contracts gives us price certainty for periods of 3 – 5 years.

In terms of managing risk, our approach will be to reprioritise projects, or delay projects, or increase rates. Although the average rates increase over the first 4 years is 4.5%, it is only 2.6% over the 6 years that follow. Therefore we are confident that the council will be able to respond to changes and any possible risk without increasing the burden on our ratepayers.

Thank you for taking the time to read this plan.

C Little

Craig Little
MAYOR
WAIROA DISTRICT COUNCIL

Steven May
CHIEF EXECUTIVE OFFICER
WAIROA DISTRICT COUNCIL

ELECTED MEMBER INFORMATION

His Worship the Mayor Craig Little
33 Ohuka Road
RD 5
Wairoa 4195
(06) 8373713

craig.little@wairoadc.govt.nz

Deputy Mayor Denise Eaglesome-Karekare
31 Waihirere Road
Wairoa 4108
(06) 838 6094

cllreaglesome@wairoadc.govt.nz

Councillor Michael (Mike) Bird
4 Kowhai Place
Wairoa 4108
(06) 838 8718

cllrbird@wairoadc.govt.nz

Councillor Michael (Min) Johansen
66a Sommerville Street
Wairoa 4108
(06) 838 7899

cllrjohansen@wairoadc.govt.nz

Councillor Jeremy Harker
63 Lahore Street
Wairoa 4108
(06) 838 7672

cllrharker@wairoadc.govt.nz

Councillor Hine Flood
50 Campbell Street
Wairoa 4108
(06) 838 8447

cllrflood@wairoadc.govt.nz

Councillor Charles Lambert
56 Mohaka Coach Road, RD 4
Raupunga 4189
0223719659

cllrlambert@wairoadc.govt.nz

MAHERE PAE TAWHITI - LONG TERM PLAN

KUPU ARATAKI

He mihi māhaki tēnei ki te katoa o te rohe whānui o Te Wairoa, mai i Pūtōrino ki te tonga ki Te Māhia ki te raki, ā, mai i te Waikaremoana hoki ki uta ki Te Wairoa Tapokorau ki te tai, kei te mihi. Haere tonu te mihi mahana ki ngā iwi kāinga, ngā kaihautū o tērā marae, o tērā marae puta noa i te rohe nei, tēnā koutou. Tēnā anō koutou katoa hei whakapau kaha ki te manaaki ki a mātau, nā reira, tēnā anō tātau.

Nā mātau ko te Kaunihera o Te Wairoa te waimārie kia tuku atu ai tā tātau Mahere Pae Tawhiti ki te taha o te hapori o Te Wairoa whānui. Nā koutou ko te hapori o Te Wairoa i tukua mai i āu tātau whakaaro hei hāpaitia te wawata o tō tātou rohe. Tēnā anō koutou mā tā koutou ārahitanga ki a mātau kia whāia te huarahi tika. Ko te 'Hāpaitia' te kupu kitenga mo te Mahere Pae Tawhiti nei, ā, he kupu akiaki anō hoki ki a tātau kia mahi tahi mō te oranga nui o te rohe whānui o Te Wairoa. Ko te hapori o Te Wairoa te tūāpapa o tō tātau rohe whānui. Me tā tātau hapori e ārahi mai i a mātau, ā, e pēnei ana te kōrero tohutohu.

'Mā te kapua whakapipi o Te Wairoa whānui e hāpai ngā whakaaro rangatira, ngā whakaaro pai.'

Ka tūohu anō ā mātau rae ki a koutou, ngā mihi mahana ki te katoa.

OPENING ADDRESS

This is an acknowledgement to everyone from the Wairoa district, from Pūtōrino in the south to Te Māhia in the north, and from Waikaremoana inland to Te Wairoa Tapokorau on the coast. We extend our greeting to all the tribes and marae throughout this district. Thank you for your generosity.

The Wairoa District Council presents our Long Term Plan on behalf of the Wairoa district. The Wairoa community has presented its thoughts, in which to uplift the aspirations of our district. Thank you for your guidance on the right path to follow. 'Hapaitia' is our vision for this Long Term Plan. It is also a word of encouragement for all of us to work collaboratively for the well-being of the Wairoa district. The Wairoa community is the foundation of our vast district. Let our community guide us.

'May the protective cloud of the Wairoa district give rise to noble and thoughtful direction.'

We again offer a warm acknowledgement to everyone.

KUPU WHAKATAKI - INTRODUCTION

This document is the 2018-2028 Long-term Plan (LTP) for the Wairoa District Council. It takes account of the Local Government Act 2002, which is the governing legislation that sets out what Council can and cannot do, and reflects a clear move towards a concept of 'general competence.'

On the one hand, general competence gives Wairoa District Council (Council) greater flexibility in terms of the activities it can become involved with; and on the other, it increases the opportunity for more community involvement in decision making.

The life of this LTP is from 1 July 2018 until 30 June 2028 (with a review to take place in 2021).

WHAT IS A LONG TERM PLAN?

An LTP is a document that sets out the priorities of the Council and the community over the medium to longer term. It tells you how Council intends to contribute to the well-being of the community over the life of the plan.

An LTP details what Council intends to do over the next ten years, how this will be achieved and what it will cost. It is a ten-year plan and is more holistic in terms of acknowledging and responding to community concerns. It will be reviewed every three years to keep it up to date.

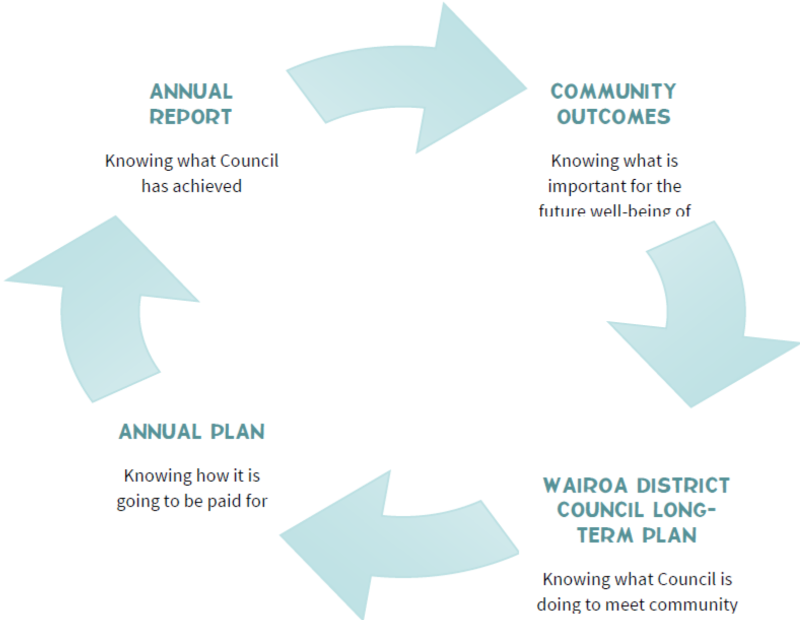
Prior to the next LTP review, two Annual Plans will also be completed for 2019-2020 and 2020-2021 to keep everyone informed of Council's work during those financial years. The full LTP includes this document, details of Council's activities and summaries of the Council's:

- Waste Management and Minimisation Variations.
- Water and Sanitary Services Assessment Variations.

CHANGING THE PLAN

If any significant changes need to be made to the LTP before it is formally revised at each three-year interval, the proposed changes will be publicly notified to give anyone affected an opportunity to have their say before Council decides whether or not to make the proposed changes. Our Significance and Engagement Policy guides us in determining the importance of an issue and the possible impact on the community. When an issue is deemed significant, we will consider how best to consult the community. This policy is included in the policy section.

Relationship between the Long-term Plan and other documents:



WHAKATAKOTO MAHERE - PLAN STRUCTURE

The Local Government Act 2002 requires Council to have a Long-term Plan. Section 93(3) of the Act requires Council to adopt a Long-term Plan before the commencement of the first year to which it relates. Council has not met this requirement.

This LTP supersedes Council's previous Long-term Plan adopted on 5 August 2015.Instead of undertaking a public consultation process on the Annual Plan every year as Council has done in the past, the LTP covers some new ground, and will normally go through a full public consultation process every three years.

The **INTRODUCTION** includes an overview of the LTP, an outline of the plan structure and a schedule of items, some of which are subject to a special consultative procedure. Within this section also are a number of 'significant issues' which have been identified as being of particular interest to the community because of their impact on service levels, cost, or because of their effect on the social, economic, environmental or cultural well-being of the district.

Finally, pursuant to schedule 10 (section 17) of the Local Government Act 2002, this section contains an outline of 'significant forecasting assumptions.'

PART ONE of the plan places emphasis on nine community outcomes, which the council wishes to achieve.

The Act recognises a need for all sectors, including central and local government, Māori, and non-governmental organisations, to work towards collaborating, sharing information and coordinating collective efforts to achieve the community's outcomes over time.

The Local Government Act 2002 recognises the special role local authorities will have in facilitating this result. Part One also indicates what steps Council will take to ensure improved Māori capacity in decision making, and addresses how achievement towards the community outcomes will be monitored and reported.

PART TWO of the plan sets out Council's proposed future levels of service and performance targets and measures for each group of activities, and their direct link to community outcomes. It also includes detailed information on each group of activities; the rationale for involvement; significant adverse effects of those activities on the social, economic, cultural and environmental well-being of the community; service levels, as well as costs and funding mechanisms.

PART THREE of the plan has the ten-year financial details for all activities combined, together with financial statements and forecasts for that same period.

Part Three also includes the Statement of Accounting Policies which provide the basis upon which the forecast financial results and financial position have been measured. It provides information on specific policies relating to the valuation of revenue, costs, assets and liabilities, and the useful lives applicable in depreciation of fixed and infrastructure assets.

PART FOUR of the plan includes reference to a range of funding and financial policies.

PART FIVE of the plan includes reference to a range of current Council plans and documents (e.g. the Wairoa District Plan, Coastal Strategy etc.), and briefly relates these to the achievement of community expectations and outcomes. Part Five also includes a schedule of fees and charges that will be reviewed annually and published as part of the Annual Plan.

KAUPAPA NUNUI ME NGĀ WHAKAHĀNGAI - BIG ISSUES & PROJECT UPDATES

BIG ISSUES

There were a number of ‘big issues’ within the Consultation Document for this LTP that have been identified as being of particular interest to the community because of their impact on levels of service and costs, or their effects on the social, economic, environmental or cultural well-being of the district.

WASTEWATER CONSENT AND PIPE NETWORK REHABILITATION

Council agreed to the preferred option which includes the modification of the existing wastewater facilities such as: significantly increased treatment processes, transitioning to a land-based discharge, a network renewals commitment and an ongoing commitment to a river health partnership strategy.

The total cost of $6.5 million was approved but will only have an effect on rates once the money is being spent. Council will spread the cost of the project over 6 years instead of 3 years as proposed. This does mean that, due to inflation assumptions, the overall cost is estimated to increase to $8.15 million. The Wairoa discharge consent will expire in May 2019. However Council plans to lodge the new application 6 months prior, which will allow the status quo to continue until the new BPO is rolled out and key milestones are reached.

BRIDGE STRENGTHENING PROGRAMME

Council endorsed the bridge strengthening programme which will ensure the district’s roading network meets Central Government requirements, including accommodating increased dimension heavy-production motor vehicles on our roads. The bridge strengthening programme will also provide resilience and economic benefits for current and future land use in the district. The total cost of $320,000 per annum for four years, in addition to the existing $120,000 per annum has a minimal impact on rates as work is subsidised by NZTA.

PIPING OPEN DRAINS AND NEW FOOTPATHS

Council chose the preferred option but, after securing confirmation from NZTA resolved to move all of the locally funded footpath budget for the duration of the plan, and in 2018/19 and 2019/20 $75,000 of the open drain budget into the subsidised roading activity budget, and make the Kitchener St open drain a priority. The end result of moving these budgets is that there will be an additional $500,000 to be spent in these areas.

AFFCO WATER SUPPLY AGREEMENT

Council increased the Uniform Annual General Charge (UAGC) in relation to this issue. When Council upgraded the Wairoa township water treatment system in the early 1980’s they partnered with the predecessors of AFFCO which contributed significantly to the upgrade in return for a reduced cost for the supply of water. This agreement has now been reviewed and a new and increased water rate has been set. However, there still remains a difference between the new rate and the rate charged to other users of the scheme.

Council decided on its preferred option of adding the shortfall to the Uniform Annual General Charge in recognition of AFFCO being the biggest employer in the district and many people across our district receiving direct benefits from the local processing plant. The total cost will see an increase to rates by $190,000 per annum with a UAGC increase of $37 per rating unit.

CBD ENHANCEMENT PROJECT

Council opted to not invest $1.5 million into the CBD enhancement but instead to carry-over and use the existing $200,000 budget in the 2017/18 Annual Plan for some minor work. This decision was based on community feedback from people asking for the town to be tidied up rather than a total enhancement.

MAHIA GREENWASTE AND RECYCLING CENTRE

Council agreed to spend $150,000 on the establishment of a greenwaste and recycling centre at Mahia to improve facilities and management of waste at Mahia.

WAIROA LANDFILL AND RECYCLING CENTRE

Council opted to implement all of the proposed changes to this service creating a cost-effective delivery whilst reducing the burden across all ratepayers without a major impact on level of service. Changes will see an increased minimum charge for general waste and greenwaste, increased fee per tonne by for general waste and for greenwaste, and landfill and recycling centre closed on one day during the week. This combination of change will see savings of about $30,000 and an increase of $70,000 in revenue and is a more user pays system.

DISPOSAL OF TRUCKED EFFLUENT CHARGE

Council agreed to replace the charge for disposal of trucked effluent with a targeted rate for properties not connected to the Tuai, Mahia, Opoutama and the Wairoa township schemes. This targeted rate has been set at $30 a year per habitable dwelling (excluding shearing sheds). This reflects a fairer user pays system for septic tank waste disposal and the actual increased costs of processing solids as opposed to fluids.

DEVELOPMENT OF THE WAIROA I-SITE

Council was in favour of developing the i-Site over three years by investing $200,000; however, the commencement of the project was moved to year 4 of the plan.

LIBRARY ENHANCEMENT

Extending and making alterations to the library based on a $300,000 loan and $600,000 external funding was supported but the project will now commence in year 4 of the plan rather than year 2, so the community can decide what exactly they would like to see as part of the enhancement.

PROJECT UPDATES

This is a brief summary of some of the key projects Council has been working on:

RESOURCE PLANNING

DISTRICT PLAN REVIEW

Section 73(1) of the Resource Management Act 1991 (RMA) requires Council to have a District Plan to assist in the carrying out of its functions in order to achieve the purpose of the Act. Council has a District Plan that became operative in 2005. Section 79 of the RMA requires that a District Plan must be reviewed every ten years. The Wairoa District Plan is currently under review.

Reviewing the District Plan is a significant project and must be undertaken by people skilled in policy formulation and analysis. A complete review of the plan including the extensive consultation required by the RMA will take a great deal of time. When the plan was first formed, consultants were used extensively. The use of consultants is not considered to be the best option as it limits Council’s ability to engage directly with the community and reduces the direct input from the community and other Council staff in the formulation of policy objectives and rules.

Additionally, it is often more costly to have consultants engaged over such long timeframes (the full District Plan review is estimated to take several years). Council proposes to employ two Policy Planners to undertake the work required. These staff will be supported by subject matter experts where required.

PUBLIC SPACES

Enhancing our Parks and reserves facilities with a view to being a more attractive district for both residents and visitors has been an ongoing focus. Demand management studies have seen more funds budgeted for general maintenance of public toilets and reserves, stage two of the destination playground including new toilets and reconfiguration of the former arts centre building.

Funds have been set aside for Coronation square pavement and kerb renewals, work to the interior of the lighthouse, a contribution to the development of the mountain bike park area on Fraser Street and a new toilet proposed for Pilot Hill.

WASTE MANAGEMENT

The cost of waste management and recycling in particular has been increasing and additional funds have been set aside to manage operational costs. Increased demand at Mahia and Tuai, especially in the summer months, has seen costs rise and allowance has been made for this in the plan.

A budget has been set aside for an improved weighbridge system at the Wairoa landfill, as well as an upgraded recycling centre at Mahia.

WASTEWATER

A new Wairoa wastewater discharge consent application will be lodged with Hawke's Bay Regional Council in 2018. This will include the following proposed expenditure over the next 6 years:

- $1.65M for renewals of the wastewater reticulation system
- $1.5M for renewal works on the oxidation ponds
- $1M for the consent process
- $4M for proposed works associated with a new consent.

WATER SUPPLY

MAHANGA WATER SUPPLY

The current Mahanga water supply (a neighbourhood supply under the Health (Drinking-water) Amendment Act 2007) does not meet the current New Zealand Drinking-water Standards (NZDWS). A sum of $235,000 has been allocated for a treatment upgrade to the Mahanga supply.

BLUE BAY WATER SUPPLY

The current supply at Blue Bay is unsuitable and Council are working on options to upgrade the system to meet the current New Zealand Drinking-water Standards. A budget of $235,000 has also been included for this upgrade.

LAND TRANSPORT

(Refer to the 2018 Land Transport Asset Management Plan and the Council's Infrastructure Strategy for a more detailed outline of significant issues for the next thirty years). There are four key strategic areas that the transport department is focused on to operate and improve the network:

- Resilience: this includes a focus on susceptible areas of roading which have had ongoing flood damage or erosion issues. Drainage improvements is also a key part of the improvement strategy.
- Accessibility: A total of $1.5M has been set aside over the next four years for structural renewals of various bridges around the district.
- Increasing demand: Forest harvesting predictions have been used to assist in the development of a forward works programme, which includes road strengthening and dust treatment.
- Mahia Connectivity: Future demand associated with Tourism and the rocket industry have been allowed for in this plan.

WAIROA AIRPORT

Refer to the 2018 Airport Asset Management Plan for a more detailed outline of significant issues for the next ten years.(https://www.wairoadc.govt.nz/assets/Document-Library/Long-Term-Plan-2018-28/Asset-Management-Plans-2018-28/Airport-Asset-Management-Plan.pdf)

Wairoa Airport is deemed to be a strategic asset that should be retained to serve the needs of the Wairoa community. In 2017 Council resolved that the runway be extended to enable medical evacuation direct to national trauma units, and an airport plan has been developed which outlines the future development of the facility.

The runway extension design has been completed and Council is awaiting efforts to secure additional funding to allow the project to proceed. A sum of $500,000 was set aside in the 2017 Annual plan to commence this project, but this was not carried forward. The upgrade of runway lighting, navigation system and progress toward certification of the airport has been allowed for over the next three years.

RAUTAKI AHUPŪTEA - FINANCIAL STRATEGY

INTRODUCTION

This strategy sets out the financial mechanisms that Council will utilise, and the parameters within which it will operate, to achieve the community objectives contained in its Long-term Plan (LTP) 2018-28 and the corresponding 10 years of its infrastructure strategy.

Over the next 10 years Council forecasts a total of over $280 million in operating costs and nearly $87 million in capital expenditure will be required in order to meet these objectives.

There are some significant projects that Council must undertake in order to maintain levels of service for current and future generations. This means Council will need to spend its investments, accumulated through depreciation reserves, because renewals are overdue, and also increase its external borrowing to fund additional infrastructure to meet statutory and regulatory standards.

Council will endeavour to keep costs low so that we can maintain or improve our current levels of service until the community believe they can no longer afford these levels of service, if this happens then Council will have a conversation with the community about key levels of service and make adjustments in line with the community's priorities.

Council is presenting a lean budget in its Long-term Plan, which shows that accounting deficits are expected from 2022/23 onwards, because it will only fund what it believes is necessary. This is explained further in the sections below.

PURPOSE

Section 101A of the Local Government Act 2002 prescribes that the purpose of a financial strategy is to:

a) facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and

b) provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

Council is conscious of its responsibility to inform its community and stakeholders of the financial implications of the projects and activity plans contained in its LTP. It will seek to achieve an appropriate balance between desired service levels and affordability.

We will achieve this by maximising external revenue sources, employing user pays mechanisms where appropriate and through prudent treasury management and project funding, whilst continually striving for efficiencies and cost savings.

Council will use this strategy as a reference point to ensure that its ongoing approach to funding and financial management is prudent and delivers infrastructure and services at desired levels to the community in a financially sustainable manner.

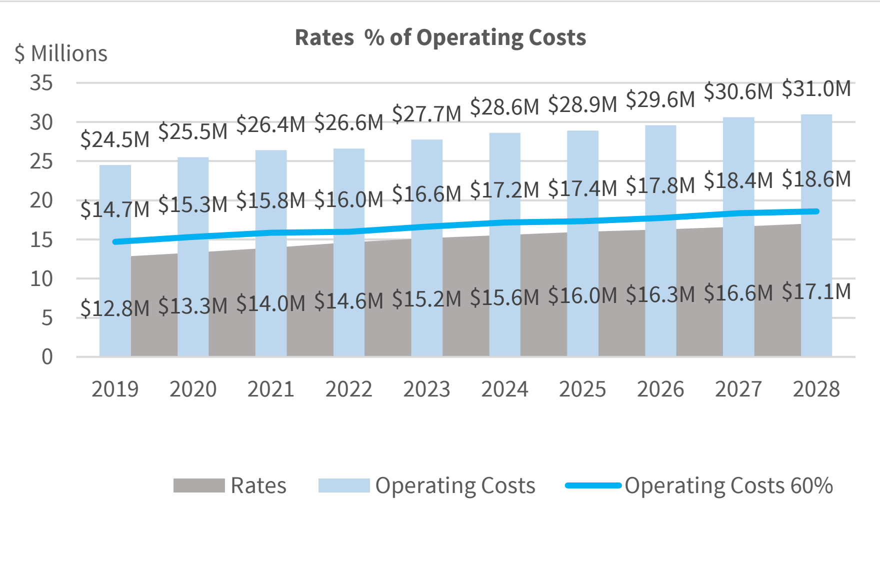
STRATEGIC FUNDING PRINCIPLES

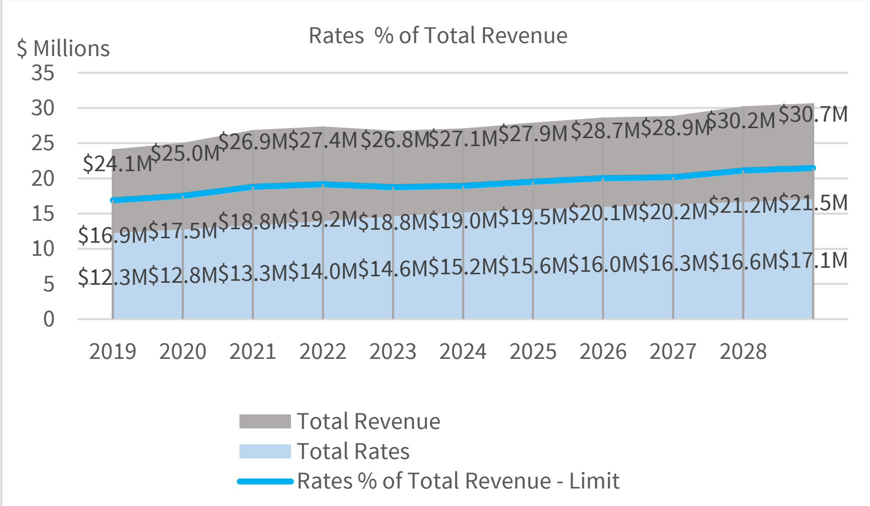
Council has determined a range of parameters to guide its ongoing funding decisions. The financial forecasts for the 10 years of the LTP are assessed against these to ensure they are conducive to Council's ability to provide and maintain existing levels of service and to meet additional demands for services.

A. TOTAL RATES

There are two measures which Council considers appropriate. Total rates will not exceed 60% of operating costs, and total rates shall not exceed 70% of total cash revenue. This maintains a focus of delivering value for money to the community by securing alternative funding sources and emphasising user pays where practical.

These two measures also ensure that Council lives within its means each year, that it has a sustainable funding programme for the long term, and that sources of funding are applied to the areas for which they are intended.





Rates will remain within these limits throughout the period covered by the plan.

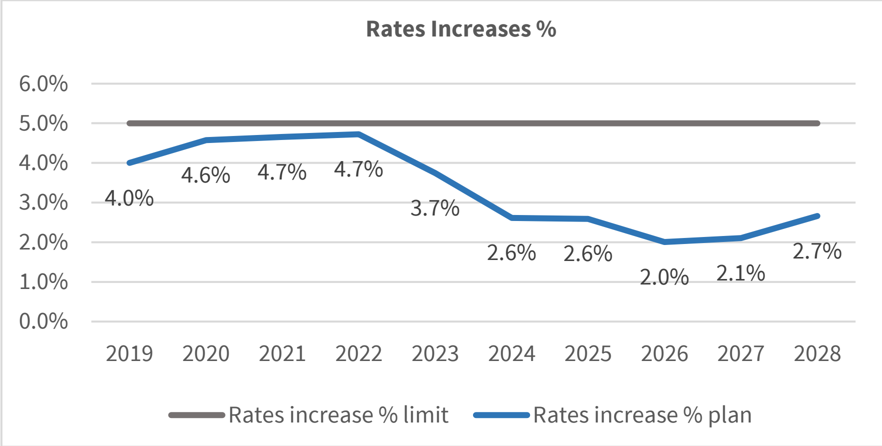
B. RATES INCREASES

The maximum annual total rates increase shall not exceed 5%. This is considered prudent because it allows for growth, increased demand or service levels and changes to legislation. The graph below indicates that rates increases will remain within this limit throughout the period of the LTP. To provide certainty and predictability, Council will rate for expenditure that occurs on alternate year, every three years, and so on, over the intervening periods.

For larger projects, particularly the Wairoa Wastewater Facility upgrade it will be necessary to spread the expenditure over a several years in order to maintain rates increases below this threshold. For the 3 year period when most of this expenditure will take place, rates increase will be only 1 or 2 basis points below the limit. The average increase over the 10 year period is 3.4%.

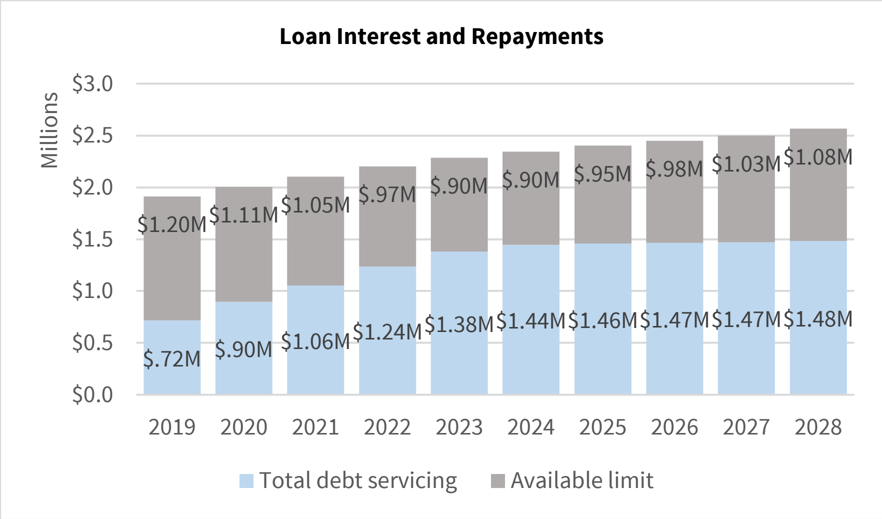
It should be noted that this relates to the total; individual ratepayers will be affected in different ways due to the application of differentials, valuation bases, uniform annual general charges and targeted rates. Council operates a complex rating system in order to achieve a reasonable distribution of rates, and so that everyone pays a 'fair share.'

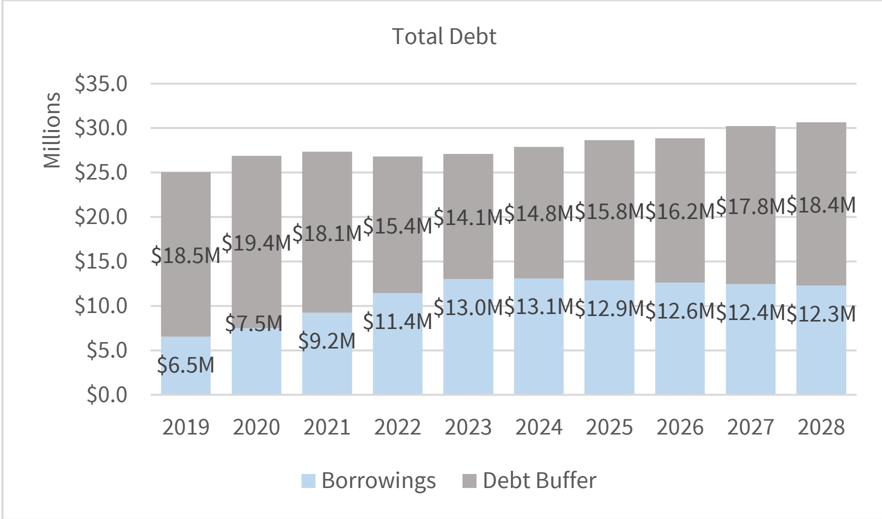
The Local Government (Rating) Act 2002 imposes a maximum for rates that can be charged on a uniform basis. Beyond this it is not practical to set a limit for each rate type because the quantum of each is directly calculated from the funding requirements of different activities, which will vary from year to year.



C. DEBT

Borrowing limits have been set based on Council's capacity to service and repay debt, allowing for the regeneration of debt capacity to finance long-term projects and ensuring each generation pays its share. Annual interest costs and loan repayments (debt servicing) shall not exceed 15% of rates revenue.





Council primarily uses external debt for new infrastructure. This is because it is expected that this investment will deliver benefits to the community in the future and that future user should pay their share of the cost. However, Council will also need to borrow externally to fund its accelerated renewals programmes.

Debt will be typically be repaid over a long period up to a maximum of the useful lives of the assets being loan funded, so Council's borrowing will increase from its current level of $5 million to $16.2 million by 2028. This net balance is after repaying $2.6 million of debt during the same period, which generates capacity for borrowing for when longer term tranches of investment are required.

To ensure that debt levels remain manageable, Council has set a limit such that total borrowings will not exceed annual revenue.

These limits are set following an assessment of the factors that will affect Council's ability to sustainably fund its activities sufficiently to achieve its community outcomes for this LTP. These are examined in the following sections.

KEY FACTORS

Council's financial forecasts are based on current knowledge and assumptions about various factors, some of which it can influence, and others that are external and over which Council's influence is limited. In this strategy Council states its assumptions, considers associated risks and the likely impact on its ability to deliver its financial objectives.

WAIROA

POPULATION

Wairoa has a small population that was declining until 2016 and will likely only marginally increase over the period of the LTP. With a population of only 8,210, and just 6,813 rating units, half of the population is based in and around the Wairoa township, and the remainder dispersed over a land mass of over 4,000 km^2, Council must still provide equivalent infrastructure and services to those in more densely populated areas.

This is a critical mass challenge that brings inherent affordability issues for the community. Forecasts also indicate an ageing population, with an increasing number of residents on fixed incomes. Wairoa is by no means unique in this regard, but the effects may be more pronounced. Council must therefore carefully plan its financial commitments.

In order to better understand the prospects for population change, Council initially referred to data published by Statistics New Zealand and subsequently commissioned a more specific report that examined the detailed drivers that may have significant impact.[1]

This report considers a number of factors that affect affordability and emphasises the need for financial prudence. Council will continuously strive to maximise external funding sources and co-funding options to deliver value to the community. However, this alone will not negate inflation, and the increasing costs associated with regulatory compliance and providing safe, fit for purpose infrastructure. For this reason, economic development remains an important objective for the district.

Council recognises that geographical spread is an important factor because it causes stresses between cost of provision and ability to pay. The table below illustrates the current spread within the district.

LOCATION	POPULATION	HOUSEHOLDS	BUSINESSES	EMPLOYMENT
Tuai	225	87	18	65
Frasertown	271	105	27	110
Ruakituri-Morere	693	271	180	410
Maungataniwha	312	121	84	90
Raupunga	652	257	135	195
Whakaki	772	296	87	940
Nuhaka	174	65	30	60
Mahia	872	348	90	195
Wairoa	4,239	1,660	279	1,290
TOTAL	8,210	3,210	930	3,355

Although these proportions are unlikely to change materially, relatively minor changes can have significant implications for Council infrastructure in the affected locations. There is one immediate specific case, being the provision of water utilities to the Blue Bay subdivision where development commenced in late 2017.

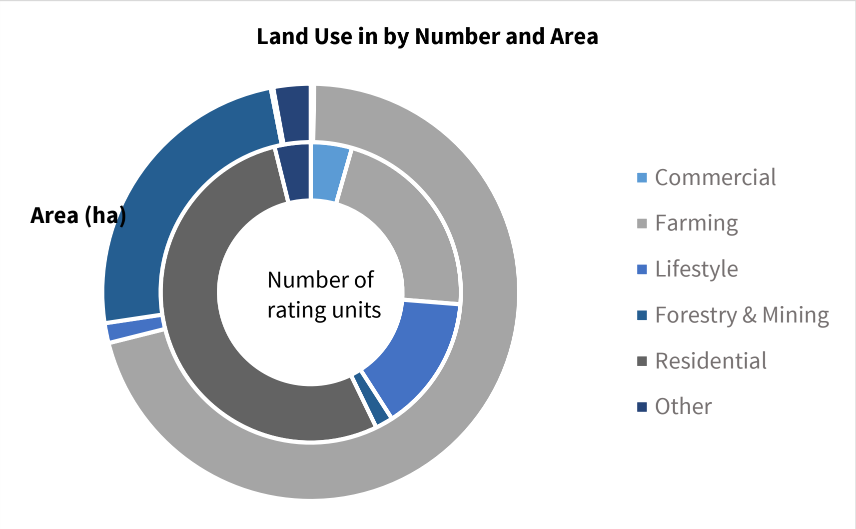
LAND USE

It is important to understand where changes are expected to occur, because this will have implications for Council's service delivery and infrastructure costs. For example, a key area of growth for the district is in the tourism sector, and with the presence of Rocket Lab and the rejuvenation of camping facilities, most growth will occur around Mahia, with inevitable demands on infrastructure.

These changes will also place additional demands on Council operations. For example, there is currently a spike in the demand for refuse management in Mahia during summer. As tourism grows this may increase but also spread across the year.

[2]Wairoa District Council - Long Term District Planning - Demographic and Economic Growth Directions 2018- 2048, Economic Solutions Ltd.

The chart below depicts the current proportions in the district by number of rating units and land area occupied.



Note: Residential and Commercial combined occupy less than 0.5% of rateable land.

Economic indicators are moderately positive for all sectors and all contribute to a healthy district. Changes across the sectors will occur at different rates at different times. This connectivity is important for Council to recognise because a change in one sector will have downstream implications for others. Council must consider the short and long-term effects on its funding requirements. Presently, as described above, Council anticipates growth in the tourism sector, and it is investigating a number of economic development initiatives. At this time though, it is not possible to assess the likely implications for land use in the district.

Similarly, it is too early to envisage the local implications of the Treaty of Waitangi settlements regarding Council services to the district, if any, or of any proposals from the new Government, although early indications is that the district will be able to secure financial support for certain initiatives via the Regional Growth Fund and we will continuously seek to leverage such facilities . Council's primary focus will be working with what it knows; how it maintains infrastructure and core services as efficiently and economically as possible, assuming no significant changes to land use.

MAINTAINING LEVELS OF SERVICE

Council delivers much of its core services through infrastructure. As at 30 June 2017 Council owned assets valued at $268 million, of which $238 million was network assets, i.e. roads and water utilities. These assets have serviceable lives ranging from 10 years to 120 years. Council maintains asset management plans to ensure they achieve their service potential and are renewed or replaced at the optimum time. These assets are significant investments and the renewal expenditure tends to happen in large chunks. This requires prudent financial planning and funding principles.

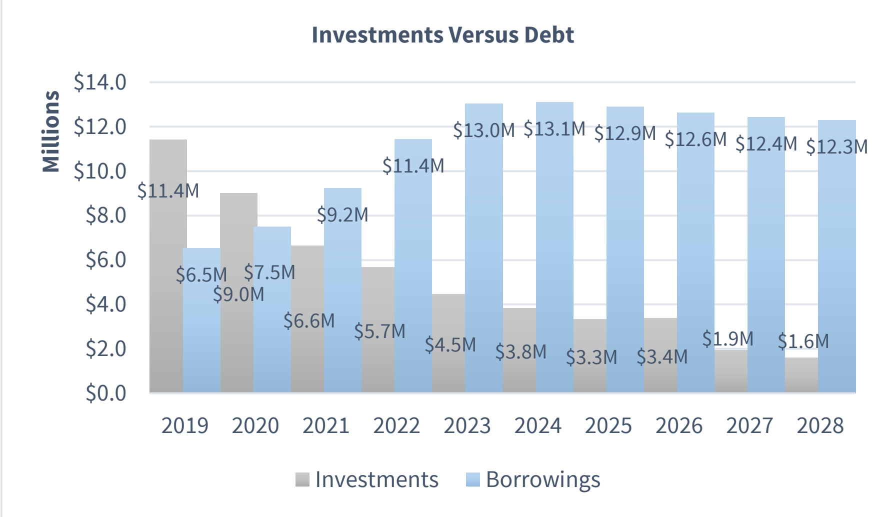
Council rates for depreciation on assets that it expects to replace or renew in the future, where no preferable alternative funding source exists. This ensures that current users pay for their share of the consumption of assets. The money collected for depreciation accumulates in reserves that Council will use to fund the future renewals, and ensure that the assets are capable of delivering the same levels of service to the next generation. This creates intergenerational equity.

As at 30 June 2017, Council's balance sheet included $19 million of reserves held for future asset purchases and around $16 million of this is for network assets. Of the total, investments and cash deposits represent $15 million, with the remainder in the form of internal loans. Internal loans arise when future funds accumulated in one activity are used for a project in another; and subsequently recovered over time through rates applied through the relevant activity. This reduces the requirement for external debt and preserves stakeholder equity by ensuring that users pay for what they get, and get what they pay for.

FUNDING CHALLENGES

Council's financial position at this time is healthy. It is a net investor with the value of financial investments double the balance of external debt. However, in the context of $238 million in network assets, $16 million is not a huge number – broadly speaking it would pay for a wastewater treatment plant, 3 – 5 years of locally funded roadworks plus about 20km of pipework. The Annual Plan 2017-18 contained $10 million of capital renewals expenditure that is funded from these investments.

Council will also need to fund some of its renewals programme with debt. Its policy is to use depreciation reserves, invested in term deposits and bonds, to finance its infrastructure renewals. The acceleration of some of this work means that these investments will be substantially depleted over the next 10 years and Council may use debt to finance some of its renewals. It is common for local authorities to be in a net borrowing position, and Council believes it is a prudent approach to maintaining levels of service through fit for purpose infrastructure.



Until 2018 Council has only loan funded the Mahia and Opoutama wastewater scheme ($5 million). In order to achieve regulatory compliance and deliver planned levels of service and Council's vision for the district, a number of assets and facilities (wastewater, bridges, water supply) are going to be upgraded rather than like for like renewal. This requires additional funding, in the form of borrowing. In the long-term this is likely to continue.

BALANCING THE BUDGET

Council must achieve a delicate balance between affordability and financial sustainability. This means living within its means but also ensuring there is sufficient funding available for its operating costs today and infrastructure for the future. From 2022/23 onwards Council expects to report deficits totalling $3.5 million. This is detailed in the Statement of Comprehensive Revenue and Expense on Page 168, and explained below:

A. DEPRECIATION COSTS NOT RECOVERED

Council does not rate for depreciation on assets that it does not expect to replace in the future, or for those that were previously funded by borrowing and the loan interest and repayments are being rated instead of depreciation. In addition, Council does not rate for depreciation where external funding is available, in particular subsidies from NZTA for road renewals.

The total amount of depreciation that is not rated is $36 million over the 10 years. Of this $26 million relates to road works which is offset by NZTA subsidy. The remaining $10 million relates to depreciation on assets that Council does not rate for, as explained in the balanced budget statement. By not rating for some depreciation costs it is reasonable to expect accounting deficits in most years. The early years of the LTP indicate surpluses due to an accelerated capital works programme on the road network and thus proportionately higher capital subsidy revenue from NZTA.

B. LANDFILL AFTERCARE PROVISION

Council maintains a provision on its balance sheet for the estimated cost of maintaining the landfill site after it is capped at the end of its useful life. This provision is adjusted annually and the adjustment is charged as an expense in Council's accounts. Since this a non cash adjustment and the ultimate outcome is remote and uncertain, this amount ($250,000) is excluded from the rates calculation.

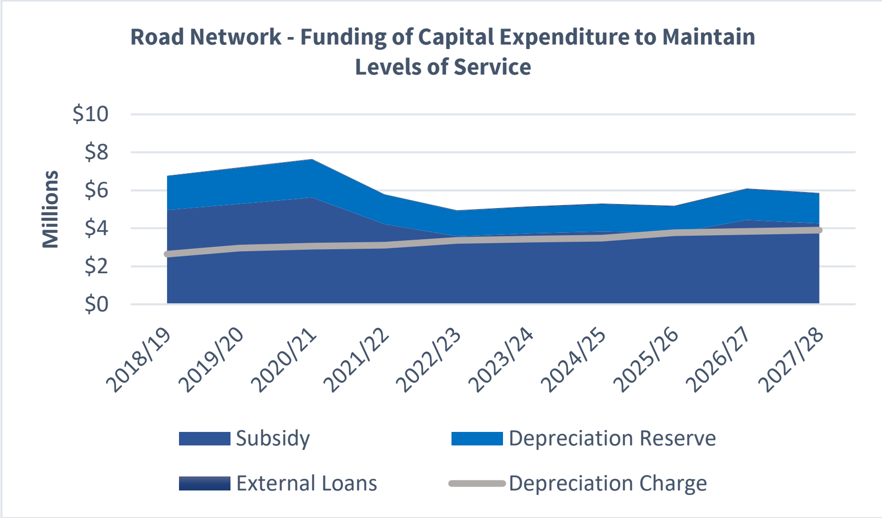
Taking these factors into account, sufficient revenue will be generated to maintain levels of service and Council therefore believes its funding approach is prudent.

FUNDING INFRASTRUCTURE

The following information examines the expenditure required on infrastructure to maintain existing levels of service, and how Council intends to fund these renewal programmes. It is a convention of prudence that depreciation is used as a benchmark to assess whether this expenditure is sufficient to maintain levels of service in the long-term. The charts that follow show the amount of capital expenditure required through the 10 years of the plan, and the funding sources that will be used.

ROADS

From 1 July 2018 the Funding Assistant Rate from NZTA increases from 71% to 75%. Council will utilise this increase to accelerate its road renewals programme including bridge strengthening. This work will include some piping of open drains and footpath extensions where this improves road safety. Total expenditure on renewals exceeds depreciation by $5.20 million over the 10 years.



Conversely the subsidy received for renewals and maintenance on State Highway 38 will revert from 100% to the baseline rate. This will have little impact on the proportion of roadworks that is funded by subsidies, remaining at approximately 60% of total expenditure throughout the LTP.

Based on this analysis there is sufficient funding available for Council to maintain levels of service within its roading infrastructure..

3-WATERS

Council funds water services in the following locations:

- Reticulated water supply in Wairoa, Tuai, Mahanga and Frasertown
- Wastewater reticulation in Wairoa, Mahia, Opoutama and Tuai
- Stormwater drainage systems in Mahia and Wairoa

The most significant item among these activities in the LTP is the renewal of the discharge consent for the Wairoa wastewater scheme in 2019. The estimated cost is $6.5 million, over a period of 6 years and it will be funded by a combination of debt and depreciation reserves.

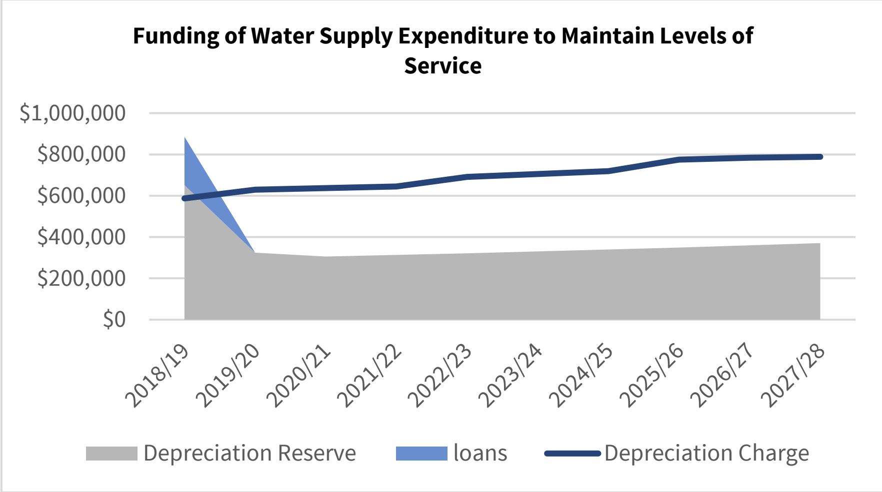
In addition:

- During 2017 Council undertook a referendum on the future of the water supply in Mahanga. The outcome of this is that Council must plan to upgrade the treatment facility to meet NZ Drinking-water Standards.

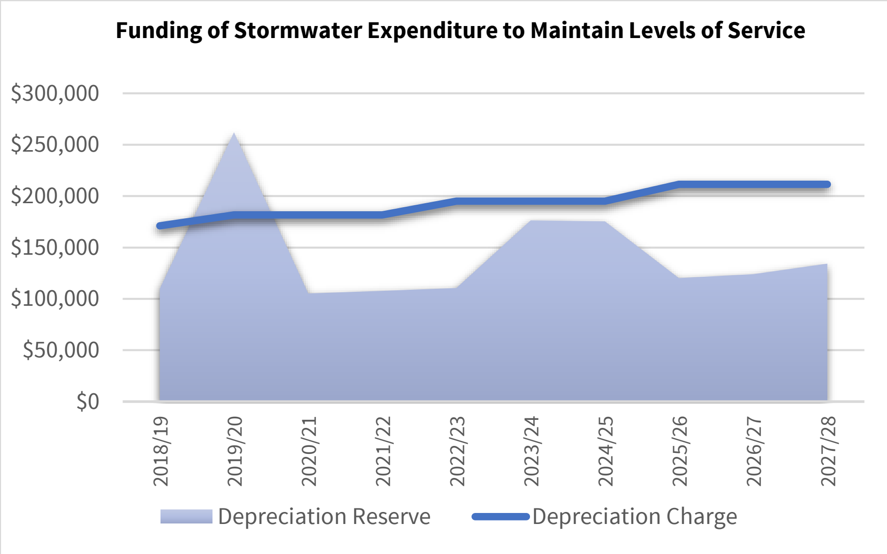
- In November 2017 the 35 subdivision sections in Blue Bay were sold and development commenced. A legacy water supply exists but was never brought into operation and now requires a significant project to deliver a potable supply.

- It is commonly held that more stringent regulations will be introduced regarding the management of stormwater and the control of pollutants that enter the system. Council's immediate response is to continue and accelerate its programme of piping open drains.

The forecast expenditure to maintain service levels is illustrated in the following graphs.

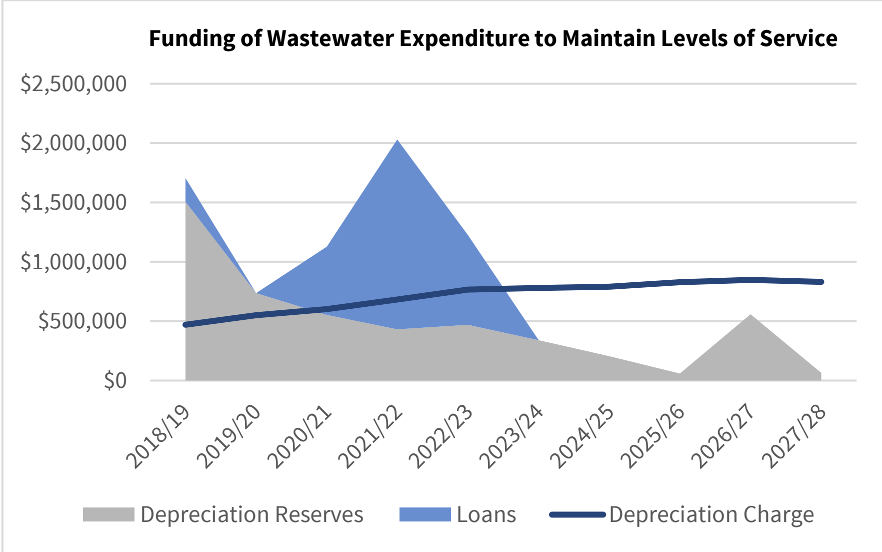


The initial spike for renewal expenditure relates to the Mahanga upgrade, along with sheet-pile protection and telemetry switchboard at the Wairoa facility. Council's asset management data indicates that the water supply network is performing well and that the current planned renewals programme is appropriate. In addition, for affordability reasons, Council must balance priorities across its key infrastructure, and the medium term priority is wastewater.



This programme includes the accelerated programme of piping open drains that Council has identified as a key project in this LTP pipe renewals in Wairoa and at Mahia Beach. For the longer term the proposed renewals programme is considered appropriate while the direction of future regulations for rainwater management remains uncertain.

In addition Council plans to spend $100,000 on CCTV inspections of the network to complete condition assessments. The renewals programme will be reviewed after this work is complete.



The upgrade of the Wairoa wastewater treatment facility is financially the largest single item in the next 10 years, and also the primary reason why Council's borrowing requirement will significantly increase in the short term. Over the 10 years of the LTP Council expects to spend $8 million to maintain levels of service in the wastewater activity, $0.9 million more than the depreciation charge.

The renewals programmes are determined by Council's Asset Management Plans. Over the long term renewal expenditure will approximate to depreciation charges. The early years of the LTP show renewals expenditure in excess of what Council will recoup by rating for depreciation, for the reasons described above.

It is therefore prudent that Council undertakes a more conservative renewals programme in the later years, to allow depreciation reserves to be replenished. Over the course of the LTP Council will reinvest 80% of rates charged for depreciation of water assets in renewals of those assets. Council believes this is sufficient to maintain levels of service within sensible funding parameters.

A similar programme will continue over the 30 year period. This will enable Council to maintain levels of service and allow some flexibility as technology and legislation progress.

ACTIVITY	RENEWALS ($)	DEPRECIATION ($)	PERCENTAGE
WATER SUPPLY	3,896,050	6,963,490	56%
STORMWATER	1,426,015	2,158,758	66%
WASTEWATER	8,051,075	7,154,652	113%
TOTAL	**13,373,140**	**16,276,899**	

OTHER SIGNIFICANT FACTORS

CLIMATE CHANGE

The district's facilities and networks are exposed to the risks of slips, floods, inundation, drought, erosion, and so on. Council uses the following tools to manage these economically:

- enhanced NZTA subsidy for emergency reinstatements
- insurance
- holding sufficient liquid funds to ensure service continuity.

YEAR ENDING	% INCREASE ON PREVIOUS YEAR	
	LGCI	CPI
JUN-18	1.8	1.8
JUN-19	2.0	1.8
JUN-20	2.2	1.6
JUN-21	2.2	1.6
JUN-22	2.2	1.7
JUN-23	2.3	1.7
JUN-24	2.3	1.8
JUN-25	2.4	1.8
JUN-26	2.5	1.9
JUN-27	2.6	1.9
JUN-28	2.7	2.0

REGULATION AND LEGISLATION

The costs of compliance continues to increase. Council's response to this is to be an active stakeholder with ministries and regulators, to drive efficiency within its operations, and to attempt to influence behaviour towards lower cost compliance via its regime for fees, charges and penalties.

ECONOMIC

In preparing its financial forecasts Council has used economic indicators contained in a report commissioned by the Society of Local Government Managers, specific to the circumstances of Local Government.[2] The assessment of macro-economic factors below utilises information contained in that report.

INFLATION

A common question asked by ratepayers is 'why can't rates just increase at the rate of inflation?' At a basic level, with no changes to levels of service, they do, but Council activities are asset intensive and with a high investment in infrastructure, the cost pressures are often more akin to the construction industry. Rather than the Consumer Price Index (CPI), Council uses the Local Government Cost Index (LGCI) to forecast the effect of inflation.

The Reserve Bank of New Zealand's current target is to keep the future annual CPI inflation at between 1 percent and 3 percent on average over the medium term, with a focus on keeping future average inflation near the 2 percent target midpoint. The following table compares the 10 year outlook for the LGCI to CPI.

This presents a challenge to the sustainability of Council's funding. It suggests that even if household income consistently increases in line with inflation, rates will continue to be a progressively higher proportion of that income. Council is conscious of the impact on ratepayers. It will continually seek to maximise external revenue sources and collaborative opportunities to deliver cost savings and efficiencies.

The LGCI also calculates separate inflation rates for distinct areas of Council operations and infrastructure. This is important because Council's rating method is differentiated and contains targeted rates that approximates to a user pays approach. It helps Council recognise that increasing costs of providing services to the community will affect groups differently. The forecast annual % increases for the main categories are shown in the table below:

YEAR ENDING	PLANNING & REGULATION	ROADING	TRANSPORT	COMMUNITY ACTIVITIES	WATER & ENVIRONMENT
JUN-18	1.8	1.9	1.9	1.7	1.8
JUN-19	2.0	2.0	2.0	1.7	2.3
JUN-20	2.1	2.2	2.0	2.0	2.5
JUN-21	2.1	2.2	2.1	2.1	2.3
JUN-22	2.1	2.3	2.2	2.1	2.4
JUN-23	2.2	2.4	2.2	2.2	2.4
JUN-24	2.3	2.4	2.3	2.3	2.5
JUN-25	2.3	2.5	2.4	2.3	2.6
JUN-26	2.4	2.6	2.5	2.4	2.6
JUN-27	2.4	2.7	2.5	2.4	2.7
JUN-28	2.5	2.8	2.7	2.6	2.8

[2] Forecasts of Price Level Change Adjustors – 2017 Update, Business and Economic Research Ltd (BERL)

INTEREST RATES

Globally, interest rates have been comparatively low for several years and are forecast to remain stable until 2021, then start to rise.

Council has $5 million in external debt, paying interest of 6.01%. This loan was drawn in October 2013 and used to fund the Mahia and Opoutama wastewater schemes. Council is recovering this from the connected ratepayers in the form of lump sum contributions and capital contribution rates. Since a number of these are subject to long-term repayment plans approximately $4 million will be refinanced in September 2018. Through membership of the Local Government Funding Agency (LGFA) and its strong credit standing with commercial lenders Council expects to secure a considerably lower rate for its external debt and realise an annual saving of about $80,000. This will be used to reduce the capital contribution rates for the wastewater schemes.

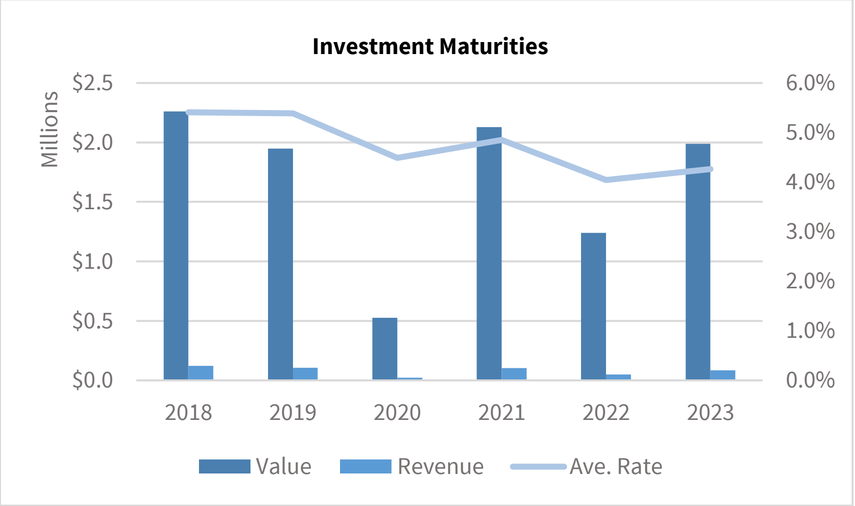
Conversely, as at 30 June 2017 Council held investments (bonds) worth $10 million that deliver interest revenue of $0.5 million per year. This revenue is offset against operating costs and reduces the rates requirement across all activities, with any surpluses used to supplement asset renewal reserves. Council purchased these investments when interest rates were higher and as they mature the returns available on new investments will be lower, which implies an increase in rates. This is already occurring as demonstrated by the maturity profile of the current portfolio shown below.

Council is currently able to obtain an average return of 3.25% on term deposits. Based on this, if Council retained its investment portfolio and increased external debt instead the maximum annual shortfall would be about $160,000, which is about 1.25% of rates.

Council's response to this challenge is to:

- Continue to seek alternative revenue sources, particularly with regards to its property portfolio.
- Consider asset sales.
- Assess the risk / reward parameters contained within its investment policy.

In principle Council uses debt to finance new capital expenditure required to meet additional demand for services. As discussed in the sections above, investment funds can be used for internal borrowing. As continuous new investment is required it is likely that Council's investment portfolio will diminish and the need for external borrowing will

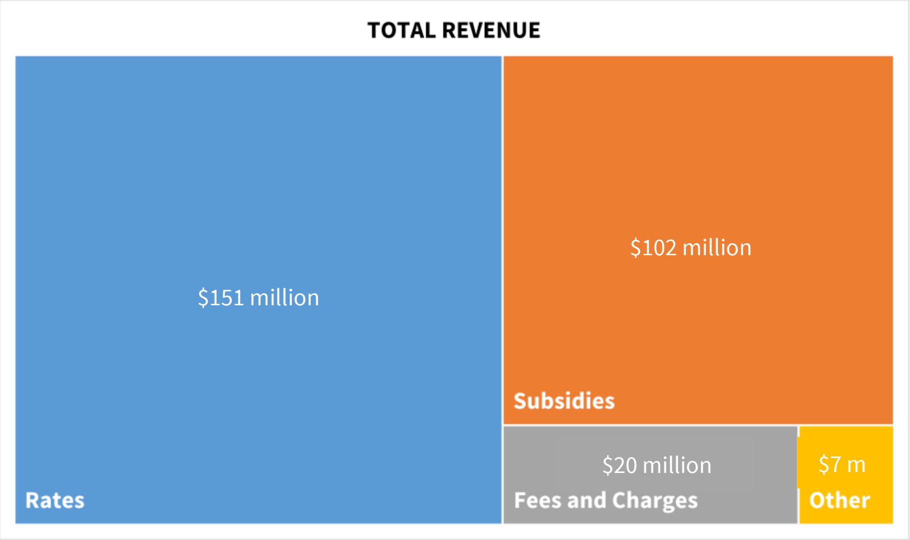


increase. We know there are inevitable risks associated with this approach. If interest rates were to increase by 1%, this would mean a 1% increase in rates. If we had to borrow another $1 million to reinstate some key infrastructure this would equate to 0.5% on rates.

As members of the Local Government Funding Agency and through our existing debenture trust deed we have access to competitive fixed borrowing rates for the long-term. Council will seek to achieve a balance that delivers the most economical outcomes for the district. Council will only use its ability to set rates as security for borrowing.

REVENUE SOURCES

The revenue sources that fund Council's activities and how the costs, including rates, are distributed are determined by the Revenue and Financing Policy. Council forecasts that its revenue for the 10 years of the LTP will be represented as follows:



RATES

Rates are charged in a variety of ways, based on a number of factors.

RATES CALCULATED BY PROPERTY VALUES

These are used for activities that are available to the whole community and are calculated by dividing the total cost of the activities over the total value of rating units in the district. The amount applied to each rating unit is calculated upon its rateable value, some rates are assessed on land value and others on capital value. Differentials are used where Council determines that particular land uses or locations should be liable for a different share of these rates.

UNIFORM ANNUAL GENERAL CHARGE (UAGC)

This is also applied for activities that are available to the whole community and are calculated by dividing the total cost of the activities over the total number of Separately Used or Inhabited Parts (SUIP) of rating units in the district. Every property pays the same amount. Legislation allows a maximum of 30% of total rates (excluding water services) to be charged on a uniform basis.

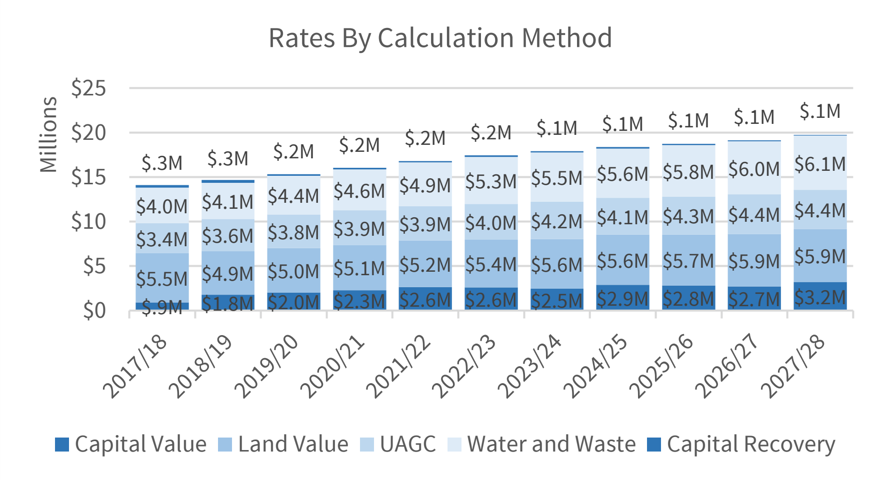
TARGETED RATES FOR ACCESS TO SERVICES

Council provides drinking-water, reticulated wastewater, drainage and solid waste management in specific locations around the district. Only the rating units that have access to these services are liable for the rates, which are calculated on a fixed amount per connection or unit, or by meters for high users of treated water.

CAPITAL RECOVERY RATES

For new infrastructure provided to specific user groups or locations Council may exercise the option of applying a targeted rate for the capital cost of the installation. Currently this only applies to the Mahia and Opoutama wastewater scheme, but from 2018-19, Council intends to utilise a similar approach to recover the cost of the Blue Bay water treatment facility.

The proportion of total rates that will be derived from these rate types is forecast to be as follows:



SUBSIDIES

Approximately 60% of the total budget for roads is funded by subsidies from NZTA. In addition some projects will qualify for government grants from the Ministry of Health or MBIE.

FEES AND CHARGES

Council is able to charge fees, fines and penalties where services are provided to, or violations committed by, specific individuals or groups. This coupled with the use of targeted rates as described above, emphasises a user pays approach wherever practicable.

OTHER SOURCES

These include a local share of petrol tax, interest and dividends, and property lease and rental income.

INVESTMENTS

Council will not speculate on the securities or other financial markets, but will invest where there is clear economic benefit to the district, where the risk is within the parameters of the investment policy and where such investment contributes to the achievement of community outcomes.

Council owns 100% of the equity in Quality Roading and Services (Wairoa) Ltd. The main purpose of this investment is to maintain and enhance competition for local infrastructure contracts issued by Council. QRS is a significant employer in the district and its presence in Wairoa also ensures resources are available to respond to emergencies. QRS distributes a percentage of its after-tax profit to Council as dividend. The targets for QRS are set out in the company's Statement of Intent that is agreed with Council annually.

Council's portfolio of bonds and other liquid investments is held to:

- provide emergency funds
- represent reserves accumulated for asset renewals
- earn a return on surpluses, windfalls and deposits.

Council owns a minority shareholding in Civic Financial Services Ltd. The sole purpose of this is by virtue of Council's membership of the mutual insurance funds that the company administers. No return is anticipated on this investment.