

## FROM THE CHIEF EXECUTIVE

### Where did this report come from? What's it for?

I have prepared this report, as required by s99(A) of the Local Government Act, to support public discussion on the issues facing the Council.

### How reliable is this report? Where's the information come from?

The strategic issues are updated from the Long Term Plan 2012 paper *Strategic Issues in the Taupō District*, adopted May 2011.

Non-financial data is from Statistics NZ, and Ministry of Business Innovation and Employment.

2010/11 and 2011/12 data is from audited Annual Reports.

2012/13 data is estimated based on actual results to May 2013.

2013/14 data is from the Annual Plan, adopted June 2013.

Data for later years is from the audited Long Term Plan (LTP) 2012-22.

**Rob Williams, Chief Executive**

Taupō District Council

## STRATEGIC ISSUES

### Water and environmental quality

#### Access to water

Water allocation is a challenge for the district with multiple users seeking water allocations from lakes and rivers. Council has multiple resource consents to take water for its various water schemes, which are expensive to acquire, and then comply with. Water is allocated by Waikato Regional Council under a complex set of rules that have taken years to determine.

#### Co-management

Lake Taupō and the Waikato River are increasingly co-managed with iwi, and these relationships and mechanisms are still evolving.

#### Drinking water quality and costs

The cost of meeting drinking water standards will be very high for small communities and Council intends to delay upgrades until later.

#### Air quality

In June 2013 pollution in the airshed above Taupō township exceeded the National Environmental Standard for air quality. As this was the second time in 12 months that the airshed exceeded the PM10 limit, it is classified as polluted for five years. Anyone seeking a new or extended air discharge consent will have to offset their PM10 discharges.

#### Wastewater quality

Lakeshore property owners face increasing pressure from Waikato Regional Council to improve wastewater quality from their septic tanks. Council has invested heavily in wastewater treatment throughout the district, including the highly successful Lake Taupō Protection programme.

## ECONOMIC DEVELOPMENT

### Demographics

The district population (34,100 in 2011) is projected to grow slowly over the next 20 years, at a much lower rate (0.2%) than the Waikato region (0.7%) and New Zealand (0.9%) growth rates.

The district is adversely affected by an ageing population structure, with declining numbers of young people and families. By 2031, the number of working age people is predicted to fall by 11% (15-64 year olds).

More than 40% of the district's ratepayers reside outside the district, with many owning holiday homes. The district has a high level of residential housing, but is comparatively low in wider commercial building investment (electricity generation aside).

### Industries

The district's main industries are in:

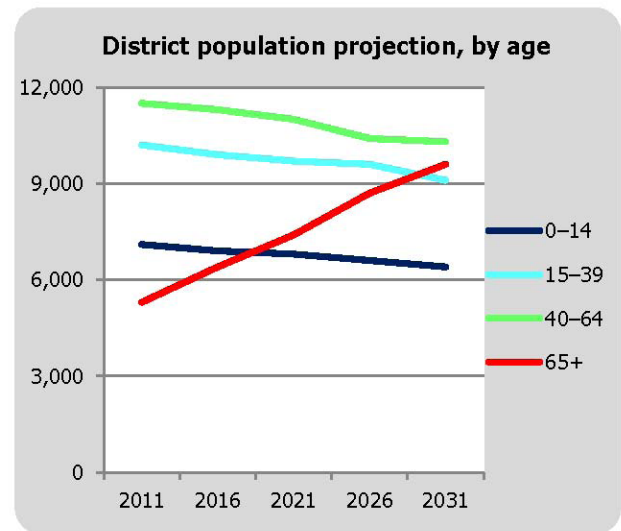
- rural production – forestry and farming, etc (15%)
- retail/wholesale and hospitality (14%)
- commercial/ business services (13%)

Source: *Taupō District Economic Monitor March Quarter 2013.*

While the district provides an increasing share of New Zealand's energy generation, the main benefits for the local economy occur during construction phases: generation is a capital intensive industry which needs relatively few jobs to operate major plants.

## FINANCIAL STRATEGY

The district was severely affected by the global financial crisis, which cut population and investment growth. In 2012 Council restructured its finances to better reflect current conditions and to reduce the growth of debt.



Source: Statistics New Zealand

**By 2021,**  
half the district's  
usually resident population  
will be aged 65 or over.

To meet the challenges  
of the future, the district needs  
to invest in stronger economic  
development, to grow the  
number of jobs and young  
families who live here.

## MAJOR PROJECTS

In the LTP 2012-22, Council scheduled a number of major new projects. Some of these are almost certain to proceed as scheduled and some will only proceed when needed. Projects where the timing may change are shaded grey.

Activity	Projects	2014/15 (\$000)	2015/16 (\$000)	2016/17 (\$000)
Water – Kinloch	Security of supply plant upgrade	-	1204	1617
Water – Mapara	Pump station and reticulation connection relocation	-	-	938
Water – Bonshaw Park	Security of supply plant upgrade	460	-	-
Water – Taupō	Wharewaka East reservoir and pump station – start depends on Deed of Arrangement with landowner	2164	-	-
Wastewater	Fats, oils and greases reception facility	584	-	-
Wastewater	Divert storm flow, pump stations and pipework	-	-	495
Wastewater	Ammonia nitrate analyser – used by four treatment plants in the district	-	349	-
Wastewater Whareroa	Install monitoring bore – required by Waikato Regional Council consent conditions	162	-	-
Wastewater	Settling tank and biofilter extension – will only proceed when required by demand growth	-	169	1934
Wastewater	View Road expansion – will only proceed when required by demand growth	54	2025	-
Stormwater	Mangakino detention pond and reticulation upgrade	-	118	-
Project Watershed	Erosion protection	106	-	-
Transport	Rural seal extension	402	416	429
Transport	Lake Terrace traffic calming and realignment	215	-	-
Solid waste disposal	Broadlands Road landfill construct new cell 2D – will proceed when new capacity is required	21	941	-
Parks and reserves	Turangi town centre improvements	438	-	-
Parks and reserves	CBD upgrade and improvements	106	110	113
Parks Development Contributions	Growth projects – will only proceed when required by demand growth	139	325	3904
Property	TDC investment land infrastructure – will only proceed when required by demand growth	2138	2214	2294

# COUNCIL FINANCES

## Infrastructure and community assets

Council has \$1.2 billion of infrastructure and community assets, mainly as:

- water, wastewater and stormwater assets (plant, pipes, pumps, etc)
- transport assets (roads, footpaths, streetlights, signs, etc)
- solid waste assets (landfill, transfer stations, etc)
- parks, reserves and recreation assets (swimming pools, sportsgrounds, Taupō Events Centre, public toilets, etc)
- culture and heritage assets (libraries, museum, Great Lake Centre, etc)
- other community assets (cemeteries, airport, Council offices, depots, etc)

## Investment assets

In June 2012 Council's investment portfolio included the TEL Fund (\$53 million) and other financial investments, property, forestry and Taupō Airport (\$49 million), valued in total at \$102 million. TEL Fund income is used to subsidise rates (\$2.7 million in 2013/14), although Council's financial strategy is to phase out the subsidy by 2016/17.

## Debt

Council uses debt to fund community and infrastructure assets to ensure each generation pays a fair share for the cost of the assets. Council's debt has increased over recent years from major infrastructure projects including:

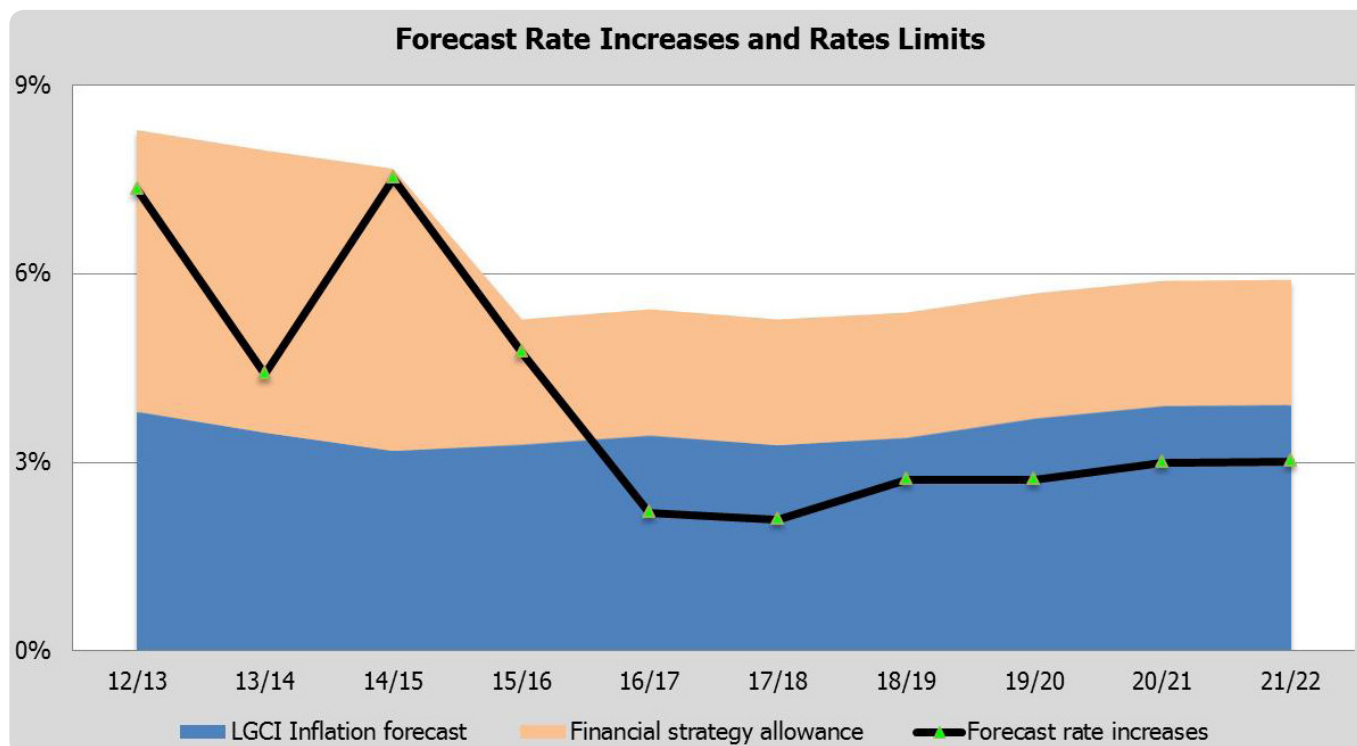
- upgrades to the Taupō, Mangakino and Turangi water treatment plants to ensure security of supply and to meet drinking water standards imposed by central government
- upgrades to the Taupō and Turangi wastewater treatment plants to meet higher environmental standards imposed by regional government
- Council debt from the East Taupō Arterial for buying land and paying 23.5% of the construction cost. In 1997 Council intended to repay the debt using money from property development. However, with the global recession, continued slow growth and rapidly rising levels of capitalised interest, Council decided to fund the loans from rates rather than let the debt continue to grow.

## Financial Limits – set in the Long Term Plan 2012-22

### Limits on Rate Increases

For the first three years of the LTP 2012-22, rates increases may not exceed the forecast Local Government Cost Index (LGCI) + 4.5%, and after that, LGCI + 2.0%.

This limit was set to balance the affordability of rates with the cost of maintaining existing assets and services and providing for future growth. Council's forecast rate increases and rates limits are shown graphically below.



### Rates Revenue to Operating Revenue

Total Rates Revenue must not exceed 80% of total Operating Revenue.

Total Operating Revenue = "Cash inflows from operating activities" from the Statement of Cashflows.

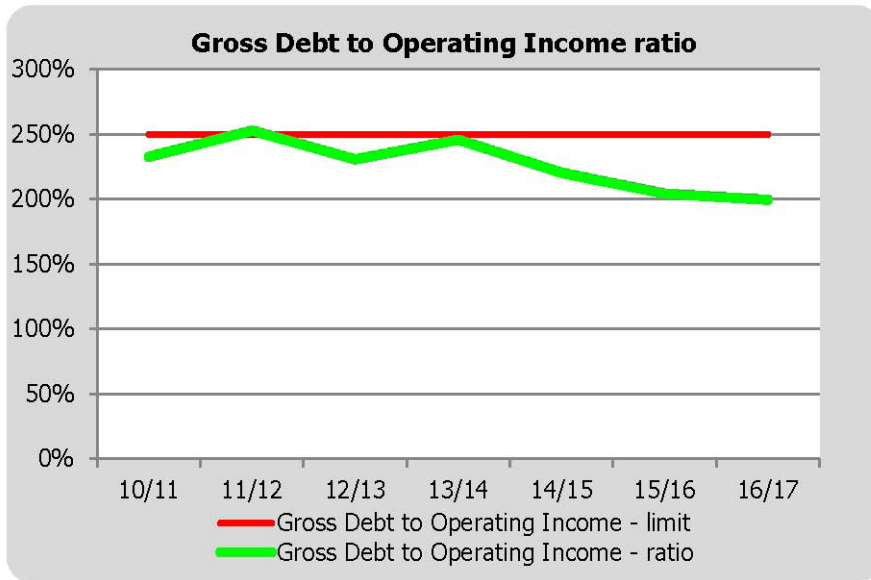
This limit is about the relative risk of different sources of income. There is more certainty of receiving income from rates compared to other income sources, so the higher this limit is set, the more certain the income will be. Council's financial performance compared to these limits is shown in the table.

	Actual			Est	LTP forecast		
	10/11	11/12	12/13	13/14	14/15	15/16	16/17
Limit given in LTP Financial Strategy	<80%	<80%	<80%	<80%	<80%	<80%	<80%
Rates Revenue to total Operating Revenue ratio	70%	73%	74%	78%	77%	77%	77%

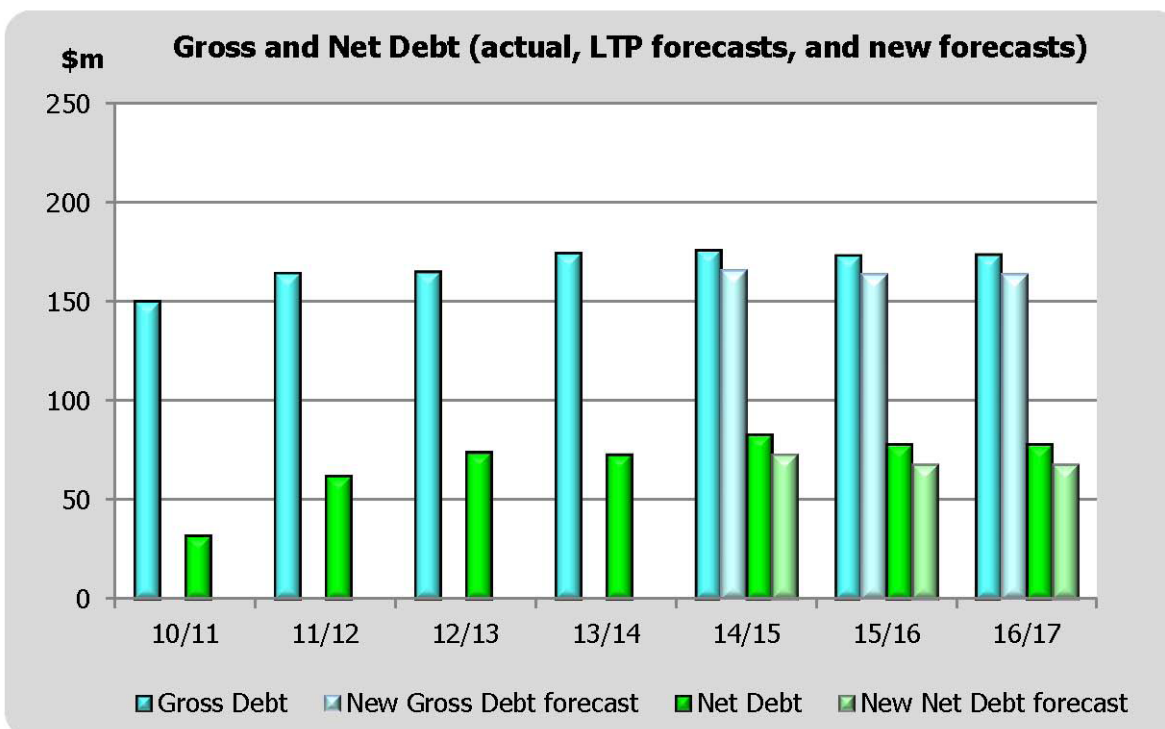
### Limit on Borrowings

Gross external borrowing may not be more than 250% of annual operating income.

This limit compares Council's level of debt with annual operating income and is a measure of how easily Council can meet interest costs and loan repayments.



At 30 June 2013, Council's gross debt was \$163 million, which is \$17 million less than was forecast in the LTP. The LTP forecast debt for the last three years in this graph is therefore too high, and a more realistic assessment of gross and net debt is also included.



## Pre-Election Report – Summary Funding Impact Statement

As at 30 June	Annual Plan		LTP		
	2013 (\$000)	2014 (\$000)	2015 (\$000)	2016 (\$000)	2017 (\$000)
<b>Sources of Operating Funding</b>					
General rates, uniform annual general charges, rates penalties	31,417	32,722	36,795	39,527	40,442
Targeted rates (other than a targeted rate for water supply)	19,571	21,019	22,497	23,078	23,831
Subsidies and grants for operating purposes	1,627	1,587	1,643	2,052	2,190
Fees, charges, and targeted rates for water supply	10,413	9,454	12,180	12,776	13,306
Interest and dividends from investments	5,065	3,952	5,018	5,658	5,586
Local authorities fuel tax, fines, infringement fees, and other receipts	367	506	394	409	423
<b>Total Operating Funding</b>	<b>68,459</b>	<b>69,240</b>	<b>78,526</b>	<b>83,500</b>	<b>85,779</b>
<b>Applications of Operating Funding</b>					
Payments to staff and suppliers	49,113	48,295	52,565	54,876	57,397
Finance costs	10,962	11,551	11,640	11,425	11,370
Other operating funding applications	-	-	-	-	-
<b>Total Applications of Operating Funding</b>	<b>60,075</b>	<b>59,847</b>	<b>64,205</b>	<b>66,301</b>	<b>68,767</b>
<b>Surplus/(Deficit) of Operating Funding</b>	<b>8,384</b>	<b>9,393</b>	<b>14,321</b>	<b>17,199</b>	<b>17,012</b>
<b>Sources of Capital Funding</b>					
Subsidies and grants for capital expenditure	875	941	804	1,038	983
Development and financial contributions	474	1,265	1,544	2,284	2,404
Increase (decrease) in debt	9,193	890	(4,253)	(2,741)	477
Gross proceeds from sale of assets	725	138	831	792	820
Lump sum contributions	-	-	-	-	-
<b>Total Sources of Capital Funding</b>	<b>11,267</b>	<b>3,234</b>	<b>(1,074)</b>	<b>1,373</b>	<b>4,684</b>
<b>Applications of Capital Funding</b>					
Capital expenditure					
– to meet additional demand	10,840	1,275	2,303	1,698	7,525
– to improve the level of service	10,166	10,866	5,884	7,185	5,339
– to replace existing assets	7,531	7,134	8,808	9,166	9,115
Increase (decrease) in reserves	(8,886)	(6,648)	(3,748)	523	(283)
Increase (decrease) of investments	-	-	-	-	-
<b>Total Applications of Capital Funding</b>	<b>19,651</b>	<b>12,627</b>	<b>13,247</b>	<b>18,572</b>	<b>21,696</b>
<b>Surplus/(Deficit) of Capital Funding</b>	<b>(8,384)</b>	<b>(9,393)</b>	<b>(14,321)</b>	<b>(17,199)</b>	<b>(17,012)</b>
<b>Funding Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Pre-Election Report – Statement of Comprehensive Income

	Actual		Estimate		Annual Plan		LTP	
	2011	2012	2013	2014	2015	2016	2017	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Income</b>								
Rates revenue	45,424	47,702	51,812	53,822	59,925	63,263	64,957	
Other revenue from significant activities	30,917	16,111	13,907	12,928	14,697	15,265	15,888	
Finance income	5,673	5,118	5,005	3,952	5,018	5,658	5,586	
Other revenue	483	1,949	523	3,975	4,821	6,166	6,398	
Other gains/(losses)	3,392	4,768	4,740	-	-	-	-	
Total operating revenue	85,889	75,648	75,987	74,677	84,461	90,352	92,829	
<b>Expenditure</b>								
Employee benefit expenses	21,092	18,042	17,938	18,553	19,787	20,341	20,951	
Depreciation and amortisation	18,319	19,682	19,321	19,550	20,195	20,269	20,942	
Finance costs	8,987	9,473	10,298	11,743	11,835	11,612	11,553	
Other expenses	31,835	29,754	29,213	30,324	33,136	35,097	37,029	
Total operating expenditure (before derivatives)	80,233	76,951	76,770	80,170	84,953	87,319	90,475	
Operating surplus (deficit) before tax & derivatives	5,656	(1,303)	(783)	(5,493)	(492)	3,033	2,354	
Unrealised loss on interest rate derivatives	-	16,178	-	-	-	-	-	
Total operating expenditure (after derivatives)	80,233	93,129	-	-	-	-	-	
Operating surplus (deficit) before taxation	5,656	(17,481)	(783)	(5,493)	(492)	3,033	2,354	
Share of associate surplus/(deficit)	(313)	460	-	-	-	-	-	
<b>Net surplus (deficit) before taxation</b>	<b>5,343</b>	<b>(17,021)</b>	<b>(783)</b>	<b>(5,493)</b>	<b>(492)</b>	<b>3,033</b>	<b>2,354</b>	
Tax (expense) / credit	-	-	-	-	-	-	-	
<b>Net surplus (deficit) after taxation</b>	<b>5,343</b>	<b>(17,021)</b>	<b>(783)</b>	<b>(5,493)</b>	<b>(492)</b>	<b>3,033</b>	<b>2,354</b>	
Net surplus (deficit) after taxation is attributable to:								
Taupō District Council	5,343	(17,021)	(783)	(5,493)	(492)	3,033	2,354	
Non-controlling interest	-	-	-	-	-	-	-	
<b>Net surplus (deficit) after taxation</b>	<b>5,343</b>	<b>(17,021)</b>	<b>(783)</b>	<b>(5,493)</b>	<b>(492)</b>	<b>3,033</b>	<b>2,354</b>	
Other comprehensive income								
Property, plant & equipment revaluations	21,189	(419)	44,963	47,245	28,203	57,596	52,201	
Financial assets at fair value through other comprehensive income	(134)	(17)	-	-	-	-	-	
Total Other Comprehensive Income	21,055	(436)	44,963	47,245	28,203	57,596	52,201	
<b>Total Comprehensive Income</b>	<b>26,398</b>	<b>(17,457)</b>	<b>44,180</b>	<b>41,752</b>	<b>27,711</b>	<b>60,629</b>	<b>54,555</b>	

Council savings since 2012 mean that the forecast Rates Revenue and Expenditure in the LTP for 2015 -2017 are now higher than they need to be.

Even though the LTP figures now overstate Council's forecast rates revenue and expenditure, (because of savings Council has made since the projections were developed), they are reported as required by the Local Government Act.



## Pre-Election Report – Statement of Financial Position

As at 30 June	Actual		Estimate	Annual Plan	LTP		
	2011	2012	2013	2014	2015	2016	2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Equity</b>							
Accumulated Funds	879,965	857,126	854,759	855,007	870,755	872,429	873,257
Council Created Reserves	97,046	102,128	99,653	99,410	97,150	99,423	100,950
Revaluation Reserves	179,514	179,814	228,838	270,004	314,543	371,225	423,425
<b>Total Equity</b>	<b>1,156,525</b>	<b>1,139,068</b>	<b>1,183,250</b>	<b>1,224,421</b>	<b>1,282,448</b>	<b>1,343,077</b>	<b>1,397,632</b>
<b>Current Assets</b>							
Cash and Cash Equivalents	20,317	5,622	2,299	6,250	6,250	6,250	6,250
Other Financial Assets	10,067	55,621	31,950	53,807	22,061	23,136	24,538
Trade and Other Receivables	6,255	4,730	9,571	4,842	7,004	7,271	7,564
Inventories	527	897	457	897	583	605	630
Non-Current Assets Held for Sale	25,012	3,946	6,041	5,701	1,018	132	793
<b>Total Current Assets</b>	<b>62,178</b>	<b>70,816</b>	<b>50,318</b>	<b>71,497</b>	<b>36,916</b>	<b>37,394</b>	<b>39,775</b>
<b>Non-Current Assets</b>							
Other Financial Assets	51,671	24,922	43,015	25,941	55,329	56,829	56,329
Investment in Council Controlled Organisations	2,963	3,007	3,007	3,007	2,963	2,963	2,963
Derivative Financial Instruments	530	549	549	549	530	530	530
Trade and Other Receivables	115	112	1,246	-	-	-	-
Intangible Assets	859	737	737	737	950	986	1,026
Investment Properties	3,280	3,019	3,020	3,019	3,490	3,609	3,742
Investments in Associates	1,948	2,408	2,408	2,408	1,948	1,948	1,948
Biological Assets - Forestry	5,508	6,122	2,341	4,394	2,174	2,349	1,891
Property, Plant and Equipment	1,199,410	1,226,501	1,275,587	1,322,077	1,377,396	1,433,480	1,487,467
Total Non-Current Assets	1,266,284	1,267,377	1,331,910	1,362,132	1,444,780	1,502,694	1,555,896
<b>Total Assets</b>	<b>1,328,462</b>	<b>1,338,193</b>	<b>1,382,228</b>	<b>1,433,629</b>	<b>1,481,696</b>	<b>1,540,088</b>	<b>1,595,671</b>
<b>Current Liabilities</b>							
Trade and Other Payables	8,921	8,337	7,881	8,337	10,041	10,422	10,839
Employee Benefit Liabilities	2,588	2,635	2,231	2,635	2,875	2,984	3,103
Borrowings	40,270	89,500	60,223	11,616	12,299	12,638	16,330
Total Current Liabilities	51,779	100,472	70,335	22,588	25,215	26,044	30,272
<b>Non-Current Liabilities</b>							
Provisions	44	47	47	47	53	56	59
Derivative Financial Instruments	9,661	23,050	23,050	23,050	9,661	9,661	9,661
Borrowings	110,194	75,173	105,163	163,140	164,029	160,949	157,734
Employee Benefit Liabilities	259	383	383	383	290	301	313
Total Non-Current Liabilities	120,158	98,653	128,643	186,620	174,033	170,967	167,767
<b>Total Liabilities</b>	<b>171,937</b>	<b>199,125</b>	<b>198,978</b>	<b>209,208</b>	<b>199,248</b>	<b>197,011</b>	<b>198,039</b>
<b>Total Net Assets</b>	<b>1,156,525</b>	<b>1,139,068</b>	<b>1,183,250</b>	<b>1,224,421</b>	<b>1,282,448</b>	<b>1,343,077</b>	<b>1,397,632</b>

## Pre-Election Report – Statement of Cashflows

As at 30 June	Actual		Estimate	Annual Plan	LTP		
	2011	2012	2013	2014	2015	2016	2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cash flows from operating activities</b>							
Cash was provided from :							
Rates	45,194	47,691	53,327	55,699	61,916	65,318	67,083
Subsidies	1,767	1,425	1,709	1,533	1,543	1,950	2,084
Interest income	5,895	5,014	5,005	3,952	5,018	5,658	5,586
Dividends received	1	16	-	-	-	-	-
Fees, charges and other income	11,671	10,929	11,652	9,911	11,533	12,030	12,517
Net GST received	166	23	-	-	-	-	-
<b>Cash inflows from operating activities</b>	<b>64,694</b>	<b>65,098</b>	<b>71,694</b>	<b>71,095</b>	<b>80,010</b>	<b>84,956</b>	<b>87,270</b>
Cash was applied to :							
Payments to suppliers and employees	47,094	44,296	49,600	49,642	53,611	55,926	58,456
Interest on public debt	8,576	9,223	10,298	11,743	11,640	11,424	11,371
Cash outflows from operating activities	55,670	53,519	59,898	61,385	65,251	67,350	69,827
<b>Net cash inflow (outflow) from operating activities</b>	<b>9,024</b>	<b>11,579</b>	<b>11,796</b>	<b>9,710</b>	<b>14,759</b>	<b>17,606</b>	<b>17,443</b>
<b>Cash Flows from investing activities</b>							
Cash was provided from :							
Proceeds from sale of property, plant and equipment	384	5,429	3,898	5,280	4,130	2,492	1,634
Development/Financial Contributions	785	526	569	1,265	1,544	2,284	2,404
Capital Subsidies	22,916	2,144	875	987	852	1,038	983
Net decrease in investments	-	-	6,030	1,142	2	-	-
Cash inflows from investing activities	24,085	8,099	11,372	8,674	6,528	5,814	5,021
Cash was applied to :							
Purchase and development of property, plant and equipment	49,331	28,106	27,580	19,274	17,034	18,104	22,039
Purchase of intangible assets	199	91	-	-	-	-	-
Net increase in investments	3,218	20,388	-	-	-	2,575	902
Cash outflows from investing activities	52,748	48,585	27,580	19,274	17,034	20,679	22,941
<b>Net cash inflow (outflow) from investing activities</b>	<b>(28,663)</b>	<b>(40,486)</b>	<b>(16,208)</b>	<b>(10,600)</b>	<b>(10,506)</b>	<b>(14,865)</b>	<b>(17,920)</b>
<b>Cash Flows from financing activities</b>							
Cash was provided from :							
Loans raised	18,706	19,948	20,386	11,724	8,391	9,558	13,115
Cash inflows from financing activities	18,706	19,948	20,386	11,724	8,391	9,558	13,115
Cash was applied to:							
Repayment of public debt	5,726	5,730	19,297	10,834	12,644	12,299	12,638
Net repayment of finance lease liability	143	6	-	-	-	-	-
Cash outflows from financing activities	5,869	5,736	19,297	10,834	12,644	12,299	12,638
<b>Net cash inflow (outflow) from financing activities</b>	<b>12,837</b>	<b>14,212</b>	<b>1,089</b>	<b>890</b>	<b>(4,253)</b>	<b>(2,741)</b>	<b>477</b>
Net Increase/(Decrease) in Cash and Cash Equivalents	(6,802)	(14,695)	(3,323)	0	(0)	(0)	0
Add: Cash and Cash Equivalents at Start of Year	27,119	20,317	5,622	6,250	6,250	6,250	6,250
Cash at end of period	20,317	5,622	2,299	6,250	6,250	6,250	6,250
Consisting of:							
Cash and bank	222	29	100	100	100	100	100
Call deposits	20,095	5,593	2,199	6,150	6,150	6,150	6,150
Short term deposits (less than 3 months)	-	-	-	-	-	-	-
Cash at end of period	20,317	5,622	2,299	6,250	6,250	6,250	6,250