

Waitomo District Council

# Exceptions Annual Plan 2011-2012





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# 1.0 Introduction



*Marokopa Falls, Waitomo*

# 1.1 Message from the Mayor and Chief Executive

Welcome to the first Exceptions Annual Plan (EAP) of the new Council elected in October 2010.

This EAP continues with the task of balancing rates affordability, whilst attempting to maintain the high service standards expected by our community. In the background to this approach Council is conscious of the many capital projects it is committed to, namely sewage works in Benneydale, Te Kuiti and Piopio, and the future rating implications these pose. There is a need to make savings now in light of the rates impact of these capital projects as they come into operation.

Council has looked at identifying opportunities to limit the need for increased rate funding and, where possible, make savings. These savings have then been re-allocated to help fund areas of greatest need. The major area of need is the roading "catch up" rate where we plan to borrow less than originally planned and use savings from other areas and reserves to match the need. In light of the global recession the 2009 "roading catch up" rate was extended a further two years to fully fund roading operating expenses.

We have achieved savings in two areas. Firstly we are deferring some Capital projects, and secondly we are making operational savings, which will result in changes in access to some services.

## The main changes as a result of these reductions in operational expenditure are:-

- District and Regional Promotion, where savings of \$40,000 have been made.
- Te Kuiti i-SITE, reduced operating hours resulting in savings of \$13,500.
- Waitomo District Library, reduced operating hours resulting in savings of \$57,000.
- Community Grants. Council had proposed to disestablish the Community Partnership Fund and save \$45,000 of rate requirement. As a result of public submissions Council agreed to reinstate the Fund up to \$25,000 in 2011/12 but to fund it from the balance of unspent grants carried forward from the 2010/11 financial year. The desired savings of \$45,000 were still achieved.
- Sister City Tatsuno, budget has been reduced to \$2,000.
- Removal of the Inorganic refuse collection, savings of \$37,000.

The capital projects that have been deferred are covered in the document - the main ones being previously planned Water Supply upgrades and further reduction in expenditure on roading.

In summary, if the "roading catch up" rate wasn't needed we would be looking at a rate reduction this year due to budget cuts. While this sounds nice, it is a dangerous position to be in over time. This situation occurred here in the 1990's where accumulated reserves were used up in substitution of necessary rate rises and rates were held at artificially low levels. That was not sound, prudent financial management and has resulted in the position we find ourselves in today. We are determined not to follow the mistakes of the past. We must match our operational spend with appropriate rating levels.

Inframax Construction Limited (ICL) is a Council Controlled Trading Organisation (CCTO) wholly owned by Council. Although it is wholly owned by Council, ICL is an independent legal entity with its own Board of Directors and management structure and bound by the legal obligations of the Companies Act. Part 5 and Schedule 8 of the Local Government Act 2002 provide for the method in which the two separate legal entities, Waitomo District Council (WDC) and ICL can identify and agree the proposed (forecast) activities and intentions of ICL as a CCTO. This method provides for the development of a Statement of Corporate Intent (SCI) which is agreed to between the Company and the Shareholder. Council uses the SCI as a tool to establish and monitor the performance of its investment in ICL on behalf of the community.

Council's investment in ICL has, in the past, been beneficial with the investment returning yearly dividends to Council. However, in preparation of the Long Term Plan 2009-2019, Council took a conservative approach and forecast a reduction in investment income.

Over time, further information has been provided to Council (as 100% Shareholder in ICL) by the ICL Board of Directors demonstrating that ICL is not going to meet the 2010/11 performance criteria established by the current Statement of Corporate Intent and that action may be required to further strengthen the Company's financial structure.



Brian Hanna  
**MAYOR**



Chris Ryan  
**CHIEF EXECUTIVE**

## 1.2 At a glance

### 1.2.1 Introduction

This Exceptions Annual Plan 2011/12 (EAP) is the third and final instalment (of the three year period) making up the current Long Term Plan 2009-19 (LTP) which will be reviewed again during the course of the 2012 financial year. By its very nature the EAP sets out the exceptions and amendments to the original programme forecast by the LTP for the 2011/12 financial year (FY).

This "At a glance" section provides commentary on the key issues considered by Council during its deliberations on the 2011/12 EAP.

Section Two provides a commentary on the key elements for each Significant Activity and also outlines any variations to the 2009-19 Long Term Plan.

Section Three sets out the forecasted financial outcomes and includes the Funding Impact Statement which summarises the funding sources and details of the rate requirement for the 2011/12 FY.

### 1.2.2 Background to the Affordability Review

The current LTP was developed around a core strategy of prudent financial management, balanced against what was affordable (ratepayers' ability to pay) whilst maintaining overall community well-being.

- ***Consolidation and prudent financial management***

Focus in the mid term, is on the provision of essential services and the associated infrastructure. That focus seeks to take into account the four elements of community well-being – i.e. the four components of social, cultural, environmental and economic outcomes, that when taken together contribute to the well-being of the Waitomo District community. That focus when coupled with ongoing sound financial management will contribute over time to the provision of a sustainable level of service that meets the needs of the community.

- ***Affordability***

Community expectations and needs are balanced against the communities ability to pay. Wherever possible Council will source Central Government assistance for the upgrade of infrastructure and equipment that supports essential services, particularly as they relate to public health outcomes.

- ***Community Well-being***

The ongoing focus is to obtain value for money in the purchase of services.

Following the adoption of the 2009-19 Long Term Plan Council established a key project (completed in the 2010/11 financial year) to review the Levels of Services (LoS) established for the Land Transport (Roading) Activity. The aim of the review was to reduce costs as a means of achieving Financial Sustainability over time and to keep rates affordable without critically compromising the local roads asset.

Council succeeded in that goal (through its Financial Sustainability and Rates Affordability Review), and looked to consolidate on that result through this EAP 2011/12 proposal. The key driver in all of this is rates affordability. Council has been conscious of the need to strike the right balance between the two competing priorities.

## **1.2.3 Striking the Right Balance**

This EAP looks to balance rates affordability whilst maintaining the high service standards expected by our community. Council has identified opportunities to limit the need for increased rate funding and to make savings so that existing rating capacity can be re-allocated to fund the greatest need. Council is conscious of the need to limit the use of debt and identify ways by which existing debt can be repaid more quickly.

Wherever possible, increased cost pressures have been accommodated within existing budget capacity without significantly affecting the way services are delivered to the Waitomo Community. Some of those cost considerations reflect substantial price increases for items such as electricity, insurance cover, chemicals and fuel.

In addition, Council faces complex budget pressures relating to the future service provision, which require careful planning if the right balance is to be maintained – e.g. an increase in Capital Expenditure for the Land Transport (Roading) Activity combined with the ongoing debt servicing obligations around the Roading rate funding deficit, the cost of funding depreciation on new assets and the potential for an increase in the cost of some key service procurements in the near future. This strategy does not lose sight of the very strong pressure, for compliance driven infrastructure upgrades, and the need to avoid negatively impacting on community well-being through limiting the scale of existing services.

## **1.2.4 Events subsequent to Public Consultation Process**

### **1.2.4.a Significant Increases in Insurance Premiums**

On 27 May 2011 Council was advised by the Local Authority Protection Programme (LAPP), insurers of Council's Water, Stormwater and Sewerage reticulated systems, that as a result of the financial impact of the Canterbury earthquakes on insurers and re-insurers, the cost to Council to provide for re-instatement of loss of any key components of its' reticulated systems during 2011/12 will be \$143,000, an increase of \$83,000 over the amount provided for in the dEAP.

The financial size of the increase for 2011/12 was identified after the dEAP had been made available for public consultation and is something completely out of Council's control or influence. Council was concerned that the budgets for 2011/12 are extremely tight and that it would be very difficult to absorb another cost increase of \$83,000. It was also acknowledged that failure to address this cost and funding consideration during the 2011/12 financial year will place a further tension on Waitomo District Council's financial sustainability.

Accordingly, Council resolved at its 28 June 2011 meeting to provide \$83,000 of additional funding within the total rate requirement for 2011/12. This will result in the total rate requirement of 7.18%. The effect of this increase will be felt mainly in the urban areas with reticulated systems. The only changes in rural rates will be very minor increases in the subsidy rates for water and sewerage.

### **1.2.4.b Ministry of Health Subsidy**

Council is pleased to advise that subsequent to the dEAP consultation and submission process, confirmation of a Sanitary Waste Subsidy Scheme (SWSS) subsidy for \$3.65 million (plus GST) for the upgrade of the Te Kuiti Waste Water Treatment Plant has been received from the Ministry of Health. At the time the dEAP was presented for consultation Council was unable to state with total certainty that this subsidy would be made available to the Waitomo District and that upgrade works would proceed as planned.

This is a significant milestone for the residents and ratepayers of the District.

## **1.2.5 Levels of Service**

Levels of Service (LoS) have been fixed for all of the various services. Those LoS define what the Waitomo District Community can expect to receive in terms of quality and quantities of service across the 11 activities provided by the WDC and were developed as a result of an extensive consultation process with the Waitomo District community. That process included a LoS Survey, annual Resident Satisfaction Surveys and consultation on the draft LTP. That LoS arrangement is monitored for delivery outcomes and to report performance over time.

User expectations of Council services are high and Council works hard to meet those high expectations, but also needs to take rates affordability into careful consideration.



Council has decided to make some minor changes to the levels of access to a small number of service functions in 2011/12.

The proposed changes to the levels of access to services were canvassed with the Community through the consultation process and a number of submissions both for and against the proposals were received. After careful consideration of those submissions Council resolved to maintain the levels of savings proposed in the dEAP but indicated it was open to what operating hours were set to achieve those savings.

## **1.2.6 Strategic Issues**

A key near-term focus of the LTP 2009-19 is the need for capital investment in new or upgraded water supply and wastewater disposal infrastructure. The investment is required to either provide access to a much needed essential community infrastructure, (such as the Piopio Sewerage Disposal Scheme), or to address long standing inadequate infrastructure performance issues like those relating to the Te Kuiti Wastewater Treatment Plant. Considerable progress has been made over the first two financial years of the LTP 2009-19 in advancing these essential capital upgrade projects.

For that reason, as part of the development process for the EAP, the Council reviewed the detail of the forecast rate impacts of funding these projects over the period 2011/12 to 2013/14. That review reinforced the forecast rate impacts set out in the LTP 2009-19. Those projects will, over the period 2011-2015, put pressure on the rate funding capacity of Waitomo District.

A further issue is the strategy set out in the LTP 2009-19 to use all available investment income (dividends from Inframax Construction Limited) to fund an accelerated programme for the retirement of public debt. However, the financial performance of the investment over the 2009/10 and 2010/11 financial years is less than forecast and the best information available at this time suggests that no investment income will be available from this source for the foreseeable future. The need to reduce debt is one of the Prudent Financial Management principles documented in the LTP 2009-19. The Council has come to a view that it must urgently identify and consult on possible solutions to these problems.

To that end the Council proposes to make a number of relatively small changes of access to some existing LoS in 2011/12 and in so doing reduce the level of rate funding required.

In practice these proposed changes will have the effect of partially re-allocating some of the existing rate funding capacity to assist the sustainable provision of essential community services and in doing so, reduce the need to use either debt or apply reserves to fund high priority needs. The proposal also potentially offers an opportunity over time to fund a structured programme of debt reduction.

A further related proposal was that the rate 'cap' or trigger value, currently adopted for calculating financial 'Assistance for Smaller Communities' (contained in the Revenue and Financing Policy) be increased from \$900 per annum to \$1,000 per annum for Wastewater (Sewerage) Services and from \$1,300 per annum to \$1,400 per annum for Water Supply Services (inclusive of GST). These increases were duly confirmed following consultation and consideration of public submissions supporting the proposals.

In addition the Council proposes that it develop a debt reduction policy proposal for consultation as part of the draft LTP 2012-22. The concept for that proposal is the application of a new rate to be specifically used to fund the early re-payment of certain non infrastructural related debt - i.e. debt raised in the past to fund the day to day operational cost of maintaining roads and to fund the original investment in Inframax Construction Limited.

### **1.2.6.a Land Transport (Roothing)**

The challenge of sustainably funding the Land Transport (Roothing) Activity remains a key strategic issue and Council has again revisited this matter as part of the development of this EAP. Council remains committed to a strategy of keeping the level of Roothing spend under careful review. In doing so, it has acknowledged that there is a risk that limiting funding available for Roothing might have long term implications for the District, beyond the temporary reduction, in some components of the Roothing network.

The funding made available for roading maintenance has been reduced by about \$7.0 million in the period 2006 to the present with about \$2 million per year in the last two years. This represents a potential reduction in service levels and also has removed access to New Zealand Transport Agency (NZTA) funding subsidy of about \$1.160 million per year. Council acknowledges a risk that NZTA subsidy capacity will be re-allocated away from the Waitomo District to other national needs such as the Roads of National Significance (RONS) project and in that instance it is unlikely that NZTA funding capacity will be reinstated in the near future.

A further consideration is that the current Road Maintenance Contract expires shortly and will be renewed during the course of the 2011/12 financial year. There is a risk that notwithstanding the present economic climate the market place might not necessarily offer up price reductions (over and above the current contract arrangements).

It is possible that a re-pricing of the road maintenance contract will result in an increase in price. The implications of this are that there might be a need to either increase the level of rate funding to cover increased operational costs or undertake a further round of reductions in service levels (and the possibility of losing NZTA subsidy in future years).

## ***Strategic Direction***

The potential risk for an increase in the cost of road maintenance and how that cost should be funded has been carefully considered by Council. This EAP provides for the use of reserve funds to partially offset any forecast for an increased 2011/12 rate requirement.

A key consideration in this method is that the use of reserve funds in this way might not be a sustainable financial arrangement over time and any future road funding shortfall will need to be met from rates, loan or by a corresponding reduction in expenditure.

## ***Funding of Land Transport (Roading)***

Council remains committed to achieving its goal as set out in the LTP 2009-19, to complete the transition to fully rate funding roading, in lieu of using debt funding. The way in which Council goes about achieving that goal must be balanced with rates affordability considerations.

Council is on track to complete the transition (or 'catch-up') to fully fund the Land Transport (Roading) Activity from rates revenue in the 2012/13 financial year. This EAP confirms Council's commitment to complete the transition to fully rate funding roading in a staged way over four steps, between the 2009 and 2013 financial years and makes provision for the 3rd step in the transitional arrangement to be by way of an increase in the required 'catch-up' rate of \$1,092,362 over what was levied in 2010/11. However this is \$508,000 less than the projected rate requirement contained in the LTP 2009-19.

As a result the total rate funding requirement for Land Transport (subsidised roading) increases by 23.4% for the 2011/12 financial year.

This stepped transitional arrangement strikes the right balance between prudent financial management and rates affordability. However the transitional arrangement does require some interim loan funding of operating expenditure. The use of public debt in 2011/12 is forecast to increase by \$35,000 to \$535,000 (when compared with the forecast contained within the LTP 2009-19).

Both the LTP 2009-19 and the 2011/12 EAP propose that the funding of the District's local share of asset renewals and capital expenditure be made from depreciation reserves which have accumulated over time. However, the size of the asset renewal programme proposed for 2011/12 has been reduced in the interests of Financial Sustainability and Rates Affordability. As a result, if Council was to fully fund depreciation for the Land Transport (subsidised roading) activity it would be generating surplus depreciation funds that it cannot deploy in the same financial year.

Therefore this EAP includes an exception to the Balanced Budget Requirement of the Local Government Act 2002 in that it does not to fully fund depreciation in the Land Transport Activity (subsidised roads) for the 2011/12 financial year. The amount of depreciation not to be funded is approximately \$325,000.

### ***1.2.6.b Te Kuiti Wastewater Treatment Plant Upgrade***

The upgrade of the Te Kuiti Wastewater Treatment Plant (TKWWTP) is essential for the protection of public health and for the economic and environmental well-being of Te Kuiti and the District.

The EAP 2010/11 established an alternative strategy around the arrangements for receiving and treating trade waste. The strategy looked to minimise the funding risk for the proposed Capital upgrade work to the Council and the wider community. It proposed that over time only trade waste pre-treated (to reduce the waste stream) to an agreed strength or standard would be accepted for processing at the TKWWTP. This strategy ensured that enough resource was provided in the 2010/11 financial year to allow the Council to continue to take an active and facilitating role in working through the complex issues with the various stakeholders involved in this key project.

One of the outcomes was that the level of capital investment required in the near term, for the upgrade of the TKWWTP was reduced. The LTP 2009-19 forecast (capital expenditure of \$8,400,000) was deferred while a financial subsidy was sought from the Ministry of Health (MoH). That subsidy, if secured, will decrease the ratepayer funded share of the work by reducing the requirement for loan funding and the associated cost of servicing those loans. Securing this subsidy will in turn reduce the overall level of Public Debt and the associated

cost of servicing that debt in the short and medium term. Secondly, and most importantly, that new strategy is more resilient than that originally proposed in the LTP 2009-19 because it requires much less reliance on Trade Waste Revenue from industrial users as a funding source for future operating costs. This in turn reduces the risk for District Ratepayers should that revenue not be available at some time in the future.

The existing TKWWTP operation does not comply with the requirements of the current resource consent(s) under which it has operated for more than 10 years. An application to further amend the 2005 discharge consent renewal application had been submitted to Environment Waikato (EW) in June 2009 and after assessing the application EW had responded with a request for further information in February 2010, as follows:

- A more detailed preliminary design and cost estimate of an option for the discharge of treated waste to land;
- An associated sludge management system.

There is a risk that the consent renewal application could, through an appeal process, end up in the Environment Court. Based on recent experience and under present circumstances, that could conceivably add two to three years to the consent process.

Under the normal Sanitary Waste Subsidy Scheme (SWSS) funding criteria the TKWWTP proposal might not have been eligible for funding due to the population size of the Te Kuiti Township and the high level of commercial use of the TKWWTP through service provision to industrial users. A SWSS application, based on a preliminary concept design and cost estimate, was submitted to the MoH as a registration of interest. The result was that MoH confirmed that a SWSS funding application would be considered. A full application was submitted in June 2009. The then preliminary design was again further modified and an amended application was submitted to the MoH on 8 November 2010.

Council was advised in June 2011 that its SWSS application for funding had been successful.

<b>Stage One</b>	UV disinfection filter and filtration units, pipe work, instrumentation and controls	\$2,197,638
<b>Stage Two</b>	Aeration system, pipe work and related instrumentation and controls	\$1,489,796
<b>Stage Three</b>	Modified reactor	\$2,707,100
<b>Stage Four</b>	Sludge management	\$1,238,830

## Trade Waste

Trade waste discharge, and more specifically the discharge from the two meat works companies, is significant in quantity and pollutant loading in the context of the TKWWTP. Trade waste charges (TWC) are authorised by the Trade Waste Bylaw adopted in August 2006 and are calculated based on the total cost of providing the collection, treatment and disposal service as determined each year and takes into account the "treatment load" discharged by each major contributor as a percentage of total load received at the TKWWTP.

When the new TWC regime was first fully implemented on 1 July 2008 it was calculated that the meat companies were paying approximately 60% of the actual cost of receiving, treating and discharging the trade waste created by those two businesses. Council decided that the TWC system would be fully deployed by way of a stepped increase in charges of 10% per annum over four years starting in the 2009/10 financial year and continuing through to 2012/13. The trade waste load as a component of total discharge to the TKWWTP was an issue for the MoH when considering subsidy in that the SWSS is specifically not to be used to provide any subsidised service to businesses. The MoH expects Council to have very clear and firm trade waste agreements (permits) in place before it provides subsidy. To that end Council has been working closely with the meat companies as the main trade waste contributors.

In acknowledgement of the important economic role of the meat companies in the Waitomo District community, a policy change is included in the EAP 2010/11 whereby the level of TWC is capped at 80% of the actual calculated cost, on condition that the meat companies commit to making the necessary on-site investment in infrastructure to achieve a significant reduction in their discharge load.

### The three most significant discharge load parameters are:

- 40% reduction in suspended solids (SS),
- 25% reduction five day biological oxygen demand (cBOD5),
- 10% reduction in total nitrogen (TN).

Significant progress has been made. Both meat companies have committed to achieving these reductions in discharge load and that consideration is reflected in the design of the TKWWTP. On that basis, the \$5.4 million portion of the forecast CAPEX was recommended for SWSS subsidy.

## Strategic Direction

Council considers that this project is strategically essential and proposes that funds are made available to undertake those elements of the upgrade that are required to enhance the treatment process irrespective of the Trade Waste Discharge issue. The imminent announcement of a positive decision on Council's application for SWSS funding was also an important factor in terms of the overall EAP which includes plans for construction to begin in the 2011/12 financial year.

## Funding of Te Kuiti Wastewater Treatment Plant Upgrade

The table below provides a summary of the forecast level of investment in the upgrade of the Te Kuiti Wastewater Treatment Plant over the next few years:

Te Kuiti Sewerage Capital Expenditure	2011/12 \$000's	2012/13 \$000's	2013/14 \$000's	Total Capital Expenditure \$000's
<b>Forecast Capital Expenditure</b>				
Instrumentation and controls.	348,462			348,462
UV Disinfection Filter and Filtration Units, pipe work and related instrumentation and controls.	1,849,176			1,849,176
Aeration System, pipe work and related instrumentation and controls.	1,489,796			1,489,796
Modified reactor	2,707,100			2,707,100
Sludge Management		1,238,830		1,238,830
<b>Total Capital Expenditure</b>	<b>6,394,534</b>	<b>1,238,830</b>		<b>7,633,364</b>

The table includes a budget of \$1,144,139 (forecast in December 2010) to be spent in 2010/11 year.

The budget excludes provision for the cost of the resource consent discharge re-consenting process; an amount of \$180,000 was allowed for in the 2010/11 budget, and a further \$60,802 proposed by way of the EAP. (Note: The figures for the discharge consent are Council's best estimate of those costs at this time and are subject to change).

### 1.2.6.c Piopio Wastewater

The difficulty in obtaining the required discharge consent for a new Wastewater Treatment Plant for the Piopio Community has been a source of frustration for Council since 2008. This long standing project, which is essential to the future of the Piopio Community, was held up for reasons largely outside of Council's control. Resource consent was obtained after a Hearing in 2008 but the decision was appealed by the local Iwi. The Iwi's appeal was heard by the Environment Court and dismissed in December 2010. The project is now able to proceed.

## Strategic Direction

The EAP 2010/11 provided for physical completion of the project during the 2010/11 financial year. Physical works remaining to be completed include:

- Construction of a Treatment Plant (to be completed during 2010/11),
- Construction of an outfall discharge structure,
- Installation of separator tanks and physical connection to the reticulation with priority given to connecting houses in Kawana Street.

It is expected to take at least 10 working months to install the more than 200 waste effluent separator tanks and clean out and remove existing septic tanks and reinstate the affected residential properties. It is expected that the scheme will be fully operational by December 2012.

## *Funding of Piopio Wastewater Upgrade*

The original forecast cost of the scheme has increased as a result of the protracted resource consent process (legal and professional service costs) and the impact of the significant time delays on the cost of some components. The current forecast project cost is \$4.63 million (incl. GST), funded in part by way of an approved SWSS subsidy of \$3.025 million (incl. GST). The local share of the project cost will be met by way of loan.

The new Piopio Wastewater Network will not be commissioned and fully operational until the 2012/13 financial year, although construction of the Treatment Plant (\$960,000) is planned for completion in the 2010/11 financial year. The balance of the works will be completed by December 2012 (2012/13 financial year) at an estimated cost of \$1.104 million.

The small scale of the project and the increase in costs through delays, impacts on the forecast level of the annual sewerage uniform charge payable by Piopio properties. Council's proposal, that the rate 'cap' or trigger value for Sewerage Rates (contained in the Revenue and Financing Policy) currently adopted for calculating financial 'Assistance for Smaller Communities' for Wastewater, be increased by \$100, from \$900 to \$1,000, received support during the dEAP 2011/12 public consultation process and Council adopted to introduce this component in 2011/12.

The 'Assistance for Smaller Communities' component of the Policy provides that the shortfall between the annual operating cost of the scheme and the total revenue from the uniform sewerage charge (calculated at the agreed cap) be funded by a contribution made by all rating units in the District, in the form of an 'Assistance for Smaller Communities' subsidy which aims to assist smaller communities with the sustainable operation of such a service.

### *1.2.6.d Benneydale Wastewater*

About one half of the Benneydale Township is not connected to the sewerage reticulation network. Of that number about 30 properties could connect should the reticulation portion of the scheme be extended. The extension of the scheme to connect those properties will require improved treatment capacity and to that end the LTP 2009-19 provided for an upgrade project, subject to Ministry of Health (MoH) SWSS subsidy approval. These works are considered to be strategically important to Benneydale and the District. Good sewerage disposal services are essential for the protection of public health and also for the protection of the environment in urban areas through the collection, treatment and disposal of human and commercial/ industrial wastewater. The following key projects for the Benneydale Wastewater Treatment Plant (BWWTP) were established by the LTP 2009-2019 for the 2010/11 financial year:

- Investigation of extension of the Benneydale scheme to areas not currently reticulated.
- Application for a new discharge consent to replace the resource consent that expired in May 2009.
- General reticulation renewals.

The reticulation renewal and extension works in the Benneydale Village, scheduled for the 2009/10 financial year were deferred to the 2010/11 financial year, pending approval of a Ministry of Health (MoH) SWSS subsidy application. The scope of the project was also considerably reduced from the original \$2.2 million preliminary concept design stage to \$1.087 million. The subsidy application was submitted on the basis of extending the reticulation network and carrying out improvements to the BWWTP.

A SWSS subsidy application, for a total of \$1,086,800 (excluding GST) was submitted and provisionally approved by MoH in late 2009. Following submission of the final design, a SWSS subsidy of \$961,818 (88.5% of the total cost) was finally confirmed on 22 November 2010. Tenders for the work were called in December 2010. This upgrade project has significant complex parts, especially the soakage field which requires careful construction to obtain the required quality of treatment and ensure optimum asset life.

## *Strategic Direction*

The tender was awarded in early February 2011. Work commenced in the first week of March 2011 with a targeted completion date of mid-June 2011 (subject to weather conditions).

## ***Funding of Benneydale Wastewater Upgrade***

The EAP reflects cost increases for items such as electricity, insurance, loan interest, the need to fund depreciation of newly created assets and other operational costs associated with the upgrade. Council's proposal, that the rate 'cap' or trigger value (contained in the Revenue and Financing Policy) currently adopted for calculating financial 'Assistance for Smaller Communities' for Wastewater, be increased by \$100, from \$900 to \$1,000, received support during the dEAP 2011/12 public consultation process and Council adopted to introduce this component in 2011/12.

The 'Assistance for Smaller Communities' component of the Policy provides that the shortfall between the annual operating cost of the scheme and the total revenue from the uniform sewerage charge (calculated at the agreed cap) be funded by a contribution made by all rating units in the District, in the form of an 'Assistance for Smaller Communities' subsidy which aims to assist smaller communities with the sustainable operation of such a service.

### ***1.2.6.e Te Waitere Wastewater***

Improvements to the existing sewerage system were planned for the 2010/11 financial year. Those works have been deferred to the 2011/12 financial year until issues surrounding access to the existing service easement and pipeline have been resolved. The works planned for 2011/12 relate to the pump and pipeline and do not include acquiring additional land and extending the land disposal area, although both needs were identified as necessary in the LTP 2009-2019. The ongoing annual renewal of some parts of the infrastructure will continue commencing with the replacement of the rising main followed by the gravity lines over the remainder of the LTP planning period.

## ***Funding of Te Waitere Wastewater Upgrade***

The EAP reflects cost increases for items such as electricity, insurance, loan interest, the need to fund depreciation of newly created assets and other operational costs associated with the upgrade. Council's proposal, that the rate 'cap' or trigger value (contained in the Revenue and Financing Policy) currently adopted for calculating financial 'Assistance for Smaller Communities' for Wastewater, be increased by \$100 from \$900 to \$1,000, received support during the dEAP 2011/12 public consultation process and Council adopted to introduce this component in 2011/12.

The 'Assistance for Smaller Communities' component of the Policy provides that the shortfall between the annual operating cost of the scheme and the total revenue from the uniform sewerage charge (calculated at the agreed cap) be funded by a contribution made by all rating units in the District, in the form of an 'Assistance for Smaller Communities' subsidy which aims to assist smaller communities with the sustainable operation of such a service.

### ***1.2.6.f Investment Activity***

The revised forecast for the financial performance of the investment in Inframax Construction Limited (ICL) for the period to 30 June 2012 is less than that provided for in the LTP 2009-19. This has had an impact on the rate funding requirement. Income from the investment has historically been available to fund a level of service (LoS) without that LoS being funded from a General Rate levied on the District community. That investment income is no longer available and this has had a significant and detrimental effect on Council's cash position and its ability to maintain levels of service to its Community.

The LTP 2009-19 forecasts indicated that investment income would again be available from the 2010/11 financial year as ICL's operating performance and profit margins improved. In the intervening period it has become clear that that outcome is unlikely in the short to medium term and that no investment income will be available during the 2010/11 and 2011/12 financial years.

Council is currently working through a number of options to address this situation. In the meantime Council must continue to fund debt servicing costs associated with borrowing made for both the establishment of the Company and the injection of additional capital in 2009. Council also needs to develop the capacity over time to retire that debt.

### ***1.2.6.g Te Kuiti Water Supply***

An upgrade of the Te Kuiti Water Supply system is necessary in order to meet the Drinking Water Standards which were confirmed as law with effect from 1 July 2008. Council must take steps to comply with the Standard's requirements by 1 July 2013. The original LTP forecast was for upgrade work to be carried out in the 2009/10 FY. This work was carried forward to the 2010/11 FY with the necessary associated capital expenditure planned for

the 2011/12 financial year. That arrangement took into account the need to allow time for the Ministry of Health (MoH) to consider an application for a Drinking Water Subsidy Scheme (DWSS) subsidy.

The allocation of DWSS funds to communities, to improve a community water supply is prioritised and ranked using considerations such as a deprivation index (as determined by the MoH). Financial support is potentially available to a maximum subsidy of 85% of approved capital works, with a further ceiling of \$1,000 per head of population. It is estimated that on that basis a successful application for an upgrade of the TKWTP might attract a 72% subsidy on approved capital works.

The Te Kuiti water supply also requires additional water storage capacity. Extra storage is required to accommodate known peak (summer) supply demands, particularly in the central supply zone which includes the CBD and Te Kuiti Hospital areas. The existing current storage provides sufficient water to meet only four to six hours of consumer demand during peak supply periods. The existing Resource Consent limit on the abstraction of raw water from the Mangaokewa Stream is sometimes breached during summer months to compensate for the lack of adequate bulk storage for treated water. An application for MoH CAPS subsidy funding will include the cost of constructing additional storage at the TKWTP. A proposal to replace Blackman's Reservoir with a large reservoir, thereby avoiding the need for four separate pumping stations, has been evaluated but the option was abandoned due to the high CAPEX cost.

## ***Strategic Direction***

The existing Te Kuiti water reticulation maintenance arrangement must be extended to include a flushing (pigging) programme to remove the build up of many years of accumulated iron and manganese deposits from the reticulation. The existing inadequate flushing system simply acts to disturb but not remove these accumulated deposits. The effect of this is now showing up in the form of customer complaints about contaminated or discoloured water being distributed into household pipe systems (by the network) when maintenance works are undertaken. The existing water supply reticulation network also contains a number of dead-end mains which need to be ring-fed. A project to develop a model to allow Council to fully analyse the existing supply and distribution network has recently been undertaken. That analysis will allow all the required improvements including storage, to be identified and the associated development needs to be worked into a future implementation programme.

The Te Kuiti water supply intake and head works are located downstream of a sewer pump station and an industrial area. There is an ongoing risk that any overflow from the pump station and/or an industrial spill could contaminate the raw water supply to the TKWTP.

Te Kuiti, like some other smaller towns in Waitomo District, has a per household water consumption rate higher than the national average. There is worldwide, nationally and regionally, pressure to reduce water consumption to match what is regarded as acceptable limits. Metering of water use is one way of enforcing such a reduction in water usage. It will however, result in considerable additional cost to the user, which can be avoided if it is shown that water usage is voluntarily controlled and going down.

There is a legacy of deferred maintenance items to be addressed, particularly in relation to the pipe work around the treatment plant, optimisation of flow patterns through the clarifier and filters and the SCADA and telemetry monitoring systems. The present system is not automated.

## ***Funding of Te Kuiti Water Treatment Plant Upgrade***

A programme of renewal and development works to the Te Kuiti Water Treatment Plant to a value of \$2.5 million has been proposed with the first stage (\$568,000) programmed to commence in the 2012/13 financial year (subject to the assumption that Council's application for DWSS subsidy is successful).

The 2nd stage (\$584,000) of the proposed upgrade which includes upgrades to carbon dosing and ultra violet treatment capabilities is currently planned for the 2013/14 financial year.

### ***1.2.6.h Piopio Water Supply***

The LTP 2009-19 identified that the Piopio Water Treatment Plant (PWTP) required upgrading to improve water quality. The associated asset condition information confirmed that the reticulation component did not need work before 2029. However, the existing network does contain some 50mm diameter AC mains which are regarded as 'high risk' in terms of failure and allowance has been made to replace these during the period of the LTP 2009-19.

The existing PWTP filter does not have sufficient back-wash water capacity and therefore the filtration system is not able to be cleaned (back-washed) properly. It is intended to resolve this during 2012/13 through an investment of approximately \$172,000. It is planned to replace the filter and pipe-work and upgrade telemetry and treatment plant remote monitoring capabilities. Council also recognises that the PWTP needs to be upgraded

to meet the Drinking Water Standards which came into force on 1 July 2008 (compliance date is 1 July 2013). However until the outcome of an application to the MoH for Drinking Water Subsidy Scheme (DWSS) subsidy is known it has been decided to defer any further capital expenditure on the PWTP in the interim.

### ***Funding of Piopio Water Supply Upgrade***

The EAP also reflects cost increases for items such as electricity, insurance and maintenance which require an increase of \$60.00 (incl. GST) in the uniform charge for the treatment and supply of reticulated water for Piopio.

#### ***1.2.6.i Mokau Water Supply***

The LTP 2009-2019 identified that the main issues for Mokau were the security of its water supply and the problem of insufficient raw water storage required to meet peak (summer) demand periods. Geotechnical assessments have since been undertaken to determine the most feasible option to increase storage capacity. A subsequent application to the MoH for Drinking Water Subsidy Scheme (DWSS) subsidy of \$726,000 to construct water storage dams has been approved and construction is planned for the 2011/12 financial year at a projected capital cost of \$1.142 million. The balance required to fund the works (\$416,000) will be met by way of loan.

### ***Funding of Mokau Water Supply Upgrade***

The EAP also reflects cost increases for items such as electricity, insurance, loan interest, the need to fund depreciation of newly created assets and other operational costs associated with the planned upgrade of the supply.

Council's proposal that the rate 'cap' or trigger value (contained in the Revenue and Financing Policy) currently adopted for calculating financial '*Assistance for Smaller Communities*' for Water Supply, be increased by \$100, from \$1,300 to \$1,400, received support during the dEAP 2011/12 public consultation process and Council adopted to introduce this component in 2011/12.

The '*Assistance for Smaller Communities*' component of the Policy provides that the shortfall between the annual operating cost of the scheme and the total revenue from the water supply uniform charge (calculated at the agreed cap) be funded by a contribution made by all rating units in the District, in the form of an '*Assistance for Smaller Communities*' subsidy which aims to assist smaller communities with the sustainable operation of such a service. The effect of this is a \$79 increase in the Water Supply Uniform charge for Mokau from \$1,300 per annum to \$1,379 per annum in the 2011/12 financial year (inclusive of GST). The need for the District to provide financial support to assist with the funding of the Mokau Water Supply is not required until the 2012/13 financial year.

#### ***1.2.6.j Benneydale Water Supply***

The EAP also reflects cost increases for items such as electricity, insurance, loan interest, the need to fund depreciation of newly created assets and other operational costs associated with the planned upgrade of the supply.

Council's proposal, that the rate 'cap' or trigger value (contained in the Revenue and Financing Policy) currently adopted for calculating financial '*Assistance for Smaller Communities*' for Water Supply, be increased by \$100, from \$1,300 to \$1,400, received support during the dEAP 2011/12 public consultation process and Council adopted to introduce this component in 2011/12.

The '*Assistance for Smaller Communities*' component of the Policy provides that the shortfall between the annual operating cost of the scheme and the total revenue from the Water Supply Uniform Charge (calculated at the agreed cap) be funded by a contribution made by all rating units in the District in the form of an '*Assistance for Smaller Communities*' subsidy which aims to assist smaller communities with the sustainable operation of such a service.



## 1.2.7 Changes to access of some services

Council has introduced some minor changes to access of some existing services, these being:

- Reduce the operating hours of the Te Kuiti i-SITE Visitor Information Centre and therefore reduce the rate funding needed by around \$13,500.
- Reduce operating hours of the Waitomo District Library and defer both re-branding of the Library and a planned upgrade of the facility. This reduces the rate funding needed by around \$56,700.
- Reduce the budget for District and Regional Promotions from \$97,000 to \$57,000 (LTP 2011/12 forecast \$151,000).
- Reduce the funds available for the Community Partnership Fund to \$25,000 and fund it from the balance of unspent grants carried forward from 2010/11. By adopting this funding method Council was able to retain savings of \$45,000.
- Reduce the budget for the maintenance of the Sister City Tatsuno relationship to \$2,000 and therefore reduce the rate funding needed by \$4,300.

Rate funding capacity created through these changes will be re-allocated to provide funding capacity to better achieve sustainable financial management over time.

For 2011/12 the EAP provides that the rate funding capacity be re-allocated to the Land Transport (subsidised roading) activity to:

- Partially off-set the need to borrow as part of the rate funding "catch-up". The forecast for the 2011/12 financial year was for new borrowing of \$685,000. That forecast has been reduced to \$535,000 after re-allocation;
- Reduce the need to apply Reserve funds. Forecast to be \$350,000, reduced to \$325,000 after re-allocation.

This strategy re-allocates rate funding capacity to assist the sustainable provision of essential community services and in doing so, reduces the need to use either debt or apply reserves to fund high priority needs. The strategy also potentially offers an opportunity over time to fund a structured programme of debt reduction.

## 1.2.8 Financial Forecasts

The combined Cost of Service Statement provides for a decrease of overall Rate Revenue of \$2,355,000 when compared to the LTP 2009-2019. This outcome reflects the result of the Financial Sustainability and Rates Affordability Review work completed in 2009 together with continued work to keep costs down across Council activities in general. The \$15,489,232 (excl GST) in total rate revenue for the 2011/12 financial year represents a 7.18% increase over the current year's total rate requirement.

The tables provided in this section utilise brackets (...) for a credit value and no brackets ... for a debit value.

EAP 2010/11 \$000's	Cost of Service Statement for All Council Activities	LTP 2011/12 \$000's	EAP 2011/12 \$000's	Variance to LTP
(12,516)	Total Income	(10,655)	(14,424)	(3,769)
22,806	Total Direct Expenditure	24,829	23,156	(1,673)
10,291	Net Operating Cost/ (Surplus)	14,174	8,732	(5,442)
13,199	Total Capital Expenditure	9,414	14,162	4,748
<b>23,490</b>	<b>Total Expenditure</b>	<b>23,588</b>	<b>22,894</b>	<b>(694)</b>
	Funded By			
(6,388)	Loans	(2,750)	(4,274)	(1,524)
(2,651)	Reserves	(2,994)	(3,131)	(137)
(14,451)	Rates	(17,844)	(15,489)	2,355
<b>(23,490)</b>	<b>Total Funding</b>	<b>(23,588)</b>	<b>(22,894)</b>	<b>694</b>

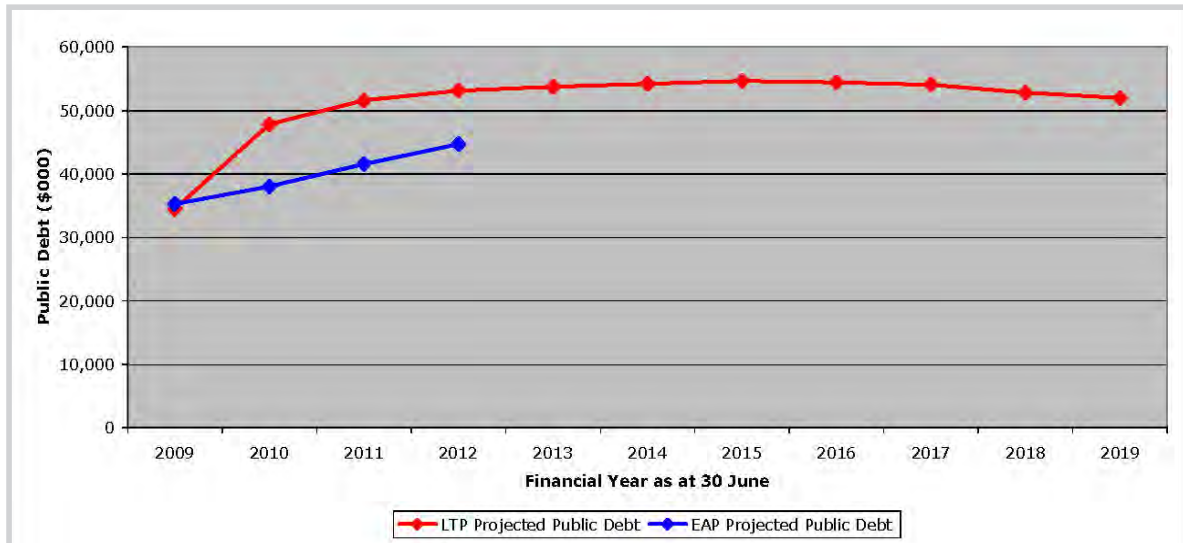
- Overall trends show an increase in Operating Revenue and a decrease in Operating Cost resulting in an overall decrease in Net Operating Cost (compared to the 2011/12 year in the LTP 2009-19).

- An overall increase in capital expenditure (compared to the 2011/12 year in the LTP 2009-19). The main reason for this is the altered timing of and level of investment in the Te Kuiti Waste Water Treatment Plant.
- The increase in debt funding (compared to the 2011/12 year in the LTP 2009-19) is largely driven by the change in the timing of the Capital Expenditure Programme. A further driver is the staged implementation of the 'rates catch up funding' for the Land Transport Activity as provided for in the Financial Sustainability and Rates Affordability Review.

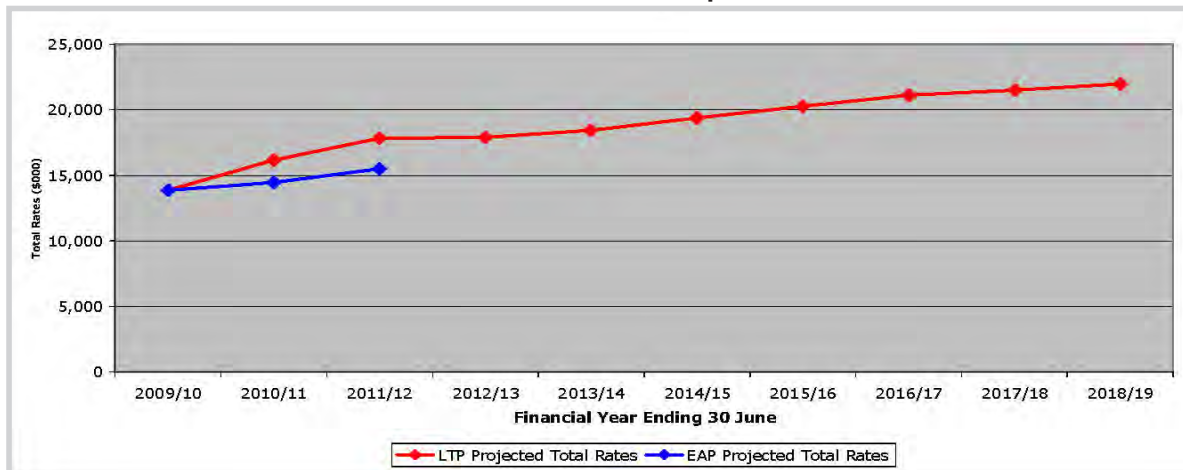
## Forecast Total Rates Requirement and Public Debt Profile

The following graphs, summarises the impact of the EAP 2011/12. Overall the public debt profile remains below that provided for in the Long Term Plan 2009-19.

**Forecast Public Debt Profile**



**Forecast Total Rates Requirement**



The following table compares the key rate changes for the 2011/12 financial year with the LTP 2009-19.

<b>Reconciliation of Changes in Forecast Rates Revenue</b>	<b>Forecast Rates Increase \$000's</b>	<b>Percentage Increase</b>
<b>Forecast, Rates Increase for 2011/12 (as proposed by the LTP 2009-19)</b>	1,676	10.37%
<b>Less (Exceptions in the EAP 2011/12):</b>		
• Sewerage (Cost increases resulting from review of scale and timing of investment and maintenance operations of Te Kuiti Waste Water Treatment Plant).	180	
• Land Transport (Reduction in expenditure as a result of Financial Sustainability and Rates Affordability Review).	(606)	
• Land Transport (Re-cast of 'catch-up').	92	
• Solid Waste Management	58	
• Others (Minor adjustments across other Significant Activities).	(363)	
<b>Resulting Rates Increase EAP 2011/12</b>	<b>1,037</b>	<b>7.18%</b>

The deferral to the 2012/13 financial year of the rates 'catch-up' funding of operating expenditure in the Land Transport (Roading) Activity results in an additional \$35,000 to be borrowed in 2011/12 compared with the Long Term Plan 2009-19.

## 1.3 Audit Review Process

This Exceptions Annual Plan 2011/12 was developed in accordance with the relevant sections of Local Government Act 2002.

As the draft Exceptions Annual Plan made available for consultation from 18 April to 18 May 2011 did not include any significant proposed amendments to the 2009-19 Long Term Plan, it was not required to contain a report from Council's Auditor on behalf of the Office of the Auditor General.

There is no need or requirement for a written report from Council's Auditors to be included in the final Exceptions Annual Plan.