

KEY ISSUES

A number of changes have been made compared to the budgets and proposals outlined in the Draft Annual Plan. These changes have been made as a result of the following:

- Consideration of submissions made by the public.
- Increased costs of the new operating environment for solid waste.
- Council's decision not to proceed with the sale of pensioner housing.
- Council's decision to use funds from the Harbour Endowment Fund to retire a one year loan for storm damage to roading.

In addition, the Council has had to deal with the impacts of flood events that occurred in early June 2010 resulting in major unanticipated costs.

As a result, the Council has needed to revise the Annual Plan budgets. This has resulted in an average rates increase for the 2010/11 year of 8.43%. This represents a small reduction in the proposed rate increase of 8.49% as included in the Draft Annual Plan. Changes to the budgets as proposed needed to be adjusted to achieve this increase. This will result in some programme changes for the year.

The following pages provide an overview of what the Council consider to be the most important issues and projects for the 2010/11 year. The information in this section highlights the status of these issues and projects at the time of adopting the Annual Plan.

RESPONDING TO THE MAY/JUNE FLOODS

On 24 May 2010 the coastal areas of the District experienced a one-in-twenty year rainfall event. This was followed a week later by an intense one in one-hundred year rain fall event over the afternoon and early evening of 1 June 2010. The resulting floods in Whakatane, Matata and Ohope caused damage to homes, businesses, roads, community facilities, and Council utilities.



The Eastern Bay of Plenty Emergency Operations Centre was fully activated at 5:15 pm on 1 June 2010 and remained operating until 6 pm the following day. About 75 people (representing 50 houses) were evacuated to the Whakatane War Memorial Hall on 1 June 2010 with many others self evacuating to friends and family. Following the floods 254 properties have been inspected for flood damage. A welfare team comprising multiple agencies has continued to work with flood victims in the weeks following the event.



What is Planned

Unanticipated expenditure totalling \$3.15m was incurred across a number of activity areas for clean up and reinstatement work following the floods. While the Council has been able to cover some of the costs through subsidies, reimbursements or insurance, a large proportion of costs will need to be funded by our ratepayers. In total, the Council's share of costs, including both operational and capital work resulting from the floods, amounts to \$2.23m. While some of these costs fall into the 2009/10 year, there are financial implications for 2010/11.

In the 2009/10 year additional operating expenditure of \$786,000 (approximately equal to 2.65% in rates) was incurred as a result of the floods. This has been incorporated into the 2009/10 financial year with surpluses from that year being applied against flood costs. The remaining expenditure will be funded by ratepayers in the 2010/11 year.

The budgets for the 2010/11 year also incorporates capital expenditure of \$1.49m for flood related repairs and reinstatement works. This will be funded through a combination of loans, renewals and insurance. Operating expenditure in the Matata Stormwater scheme of \$36,000 will be funded through a five year loan.

The net impact as a result of these events in the 2010/11 year is a 1.9% contribution to the total rate increase.

MAJOR CHANGES FOLLOWING DEVELOPMENT OF THE DRAFT ANNUAL PLAN

Council Decides Not to Proceed with the Sale Pensioner Housing

At its meeting on 28 April 2010 the Council resolved not to proceed with the divestment of the pensioner housing portfolio.

The decision to sell the pensioner housing units, subject to some strict criteria being met, was made by Council as part of the development of the 2009-19 Long Term Council Community Plan (LTCCP). This decision followed a comprehensive review of Council services that extended to all aspects of Council operations as well as governance and included a detailed analysis of funding options.

The criteria around the sale of pensioner housing units were put in place to protect the welfare of current and future tenants.

It was estimated that the sale of the pensioner housing units would realise in excess of \$3.5m (May 2010 estimate) providing benefits for the wider community by retiring debt over a ten year period.

What is Planned

Under the Local Government Act 2002 (LGA), the Council is required to undertake public consultation as well as amend the LTCCP to accommodate this decision. The Council has resolved to undertake an LTCCP amendment process for the pensioner housing divestment to coincide with consultation on the Draft Annual Plan 2011/12, or sooner if the opportunity arises.

While the decision not to proceed with the sale of pensioner housing needs to be finalised through an LTCCP amendment process, it will have an impact on this Annual Plan as revenue will not be realised during the 2010/11 year as expected. The cost of servicing the debt that was intended to be retired contributes 1.56% to the rates increase in 2010/11.

With a decision not to proceed with the sale of pensioner housing, the total impact over a ten year period of not retiring debt as intended will result in an increased rate requirement of 12.06%.

Adapting to the closure of the Burma Road Landfill

The closure of the Burma Road Landfill in December 2009 has ended a 40 year solid waste regime for the Whakatane District which had an extremely low operating cost. Following the closure, all residual waste is being transported to a landfill out of the District into the Waikato.

This new operating environment has meant our solid waste disposal costs has significantly increased.

Analysis of the first five months of operation since the landfill closed has allowed the Council to gain a better understanding of the real costs of the new operating environment. While initial budget estimates were based on the best information available at the time, the recent analysis has shown that the costs related to the new operating environment are greater than anticipated and that cost recoveries are less than was expected.



What is Planned

Higher than anticipated costs and lower than expected revenue within the new operating environment has resulted in a net increase to the Draft Annual Plan budgets of \$1.09m for the 2010/11 year. This will be funded through increases to Refuse Removal Targeted Rates and the Refuse Disposal Uniform Annual Charge. The Council has also increased Fees and Charges for solid waste disposal. These can be found in the Council's Fees and Charges Schedule.

Where possible the Council is also introducing mitigation measures to reduce the full impact of the increased solid waste disposal costs. A number of waste reduction projects and operational initiatives will be adopted by the Council early in the 2010/11 financial year, specifically designed to offset the increased costs.

The construction of an organic waste composting plant is one example of this. The composting plant will provide environmental benefits to the District and reduce the cost of transporting all organic waste by diverting this for compost. The composting plant is expected to reduce the residual waste stream by 8,000 tonnes per year and produce compost for sale. The cost of the project is expected to be \$1.68m and is scheduled for completion by July 2011.

At the Te Tahi Street Transfer Station, waste streams are being sorted to maximise the amount of waste being recycled and/or reprocessed. This reduces the disposal costs by decreasing the volume of waste that needs to be transported and disposed of outside the District.

In the 2010/11 year the Council will also be developing further strategies including a comprehensive public education campaign to maximise the level of recycling and reprocessing of waste and to minimise the volume of waste required to be transported and disposed of outside the District.

The Council is continuing to investigate the longer-term solution of developing a new landfill in the District. During 2010/11 the Council will undertake a number of investigations to support a resource consent process for a new landfill. The LTCCP included the construction of a new landfill in the District in 2013/14 at a total cost of around \$11m (including resource consent costs). It is expected that further contributions towards this project will come from other councils and key stakeholder agencies.

COUNCIL POLICY CHANGES

Rating on the basis of Separately Used and Inhabited Parts of a rating unit (SUIPs)

Many of the Council's costs are driven by individual users rather than by properties. Defining multiple users of services on one rateable property and rating them for the services they use, allows for a fairer apportionment of the costs. This change is consistent with the Council's funding philosophy.

What is Planned

Through the Draft Annual Plan 2010/11 the Council proposed a staggered implementation of a SUIPs rating system. This included the implementation of SUIPs for commercial properties in the 2010/11 rating year, with residential and rural properties in the 2011/12 rating year. Commercial/residential/rural properties would be charged the Uniform Annual General Charge (UAGC) and roading Uniform Annual Charge (UAC), and commercial properties would also attract the promotion and development rate in the SUIP calculation.

The proposal in the Draft Annual Plan also included a rates remission policy for residential and rural SUIPs, but deferred the introduction of a remission policy for papakainga SUIPs to be considered during the Draft Annual Plan 2011/12 consultation process.

During the consultation period the Council received a number of submissions on the proposal to implement SUIPs. Following consideration of submissions the Council has decided to apply SUIP charges to commercial properties in the 2010/11 rating year charging the UAGC at \$275, Roading UAC at \$50 and Promotion and Development rate at \$160.19.

The Council have supported the introduction of SUIPs for residential and rural properties in the 2011/12 rating year, subject to further investigation and consideration during the Draft Annual Plan 2011/12 consultation process. The introduction of rates remission policies for residential,

rural and papakainga SUIPs will also be considered during the Draft Annual Plan 2011/12 consultation process.

In order to implement a rating system on the basis of SUIPs for commercial properties, the Council has amended its Funding Impact Statement in the LTCCP 2009-19. More information can be found in the LTCCP Amendments chapter of this Annual Plan.

Liability Management Policy

The Council's Liability Management Policy outlines limits for the maturity period of all loans and committed facilities. Section 2(d) of the Policy indicates that between 20% to 60% of all loans and committed facilities should mature within a period of 0-3 years.

While the Policy specifies that the Council's debt maturity schedule may operate outside these limits, it must be by Council approval. Under these circumstances the Council has consistently breached the Policy limits for almost two years in order to take advantage of favourable short term borrowing facilities that have existed under the current economic conditions.

What is Planned

The Council received independent professional advice during the deliberations process endorsing the amendment.

Following consideration of this information the Council has amended the Liability Management Policy within the LTCCP by increasing the maximum percentage for the debt maturity period of 0-3 from 60% to 80%.

This change will allow the Council more flexibility to take greater advantage of short term borrowing facilities to achieve savings in interest costs.

Earthquake Prone Buildings Policy

The Council has statutory responsibilities under the Building Act 2004 to identify and manage earthquake prone buildings within the District. An initial evaluation procedure undertaken during 2009/10 identified a high proportion of buildings that are potentially earthquake prone or an earthquake risk.

What is Planned

The Council is planning to bring forward a review of the Council's Earthquake-prone, Dangerous and Insanitary Building Policy. The intention of reviewing the policy is to extend the timeframes for dealing with buildings that have been identified as being earthquake-prone.

The first stage of the programme of identifying buildings that are potentially earthquake prone was completed in 2009. It indicated through a sample survey of 100 buildings that there are a significant number of commercial and industrial buildings at risk in the

District. The Council plans to escalate the programme, particularly in the Whakatane central business district as this will provide important information to support the implementation of the Town Vision Plan and landowners or lessees redevelopment plans.

Bringing forward the programme will require increased funding over five years. This includes \$73,150 during the 2010/11 year to be funded in part from the Harbour Endowment Fund (\$43,550) and \$115,000 funded from the general rate during each consecutive year.

Application of Revenue and Financing Policy for Building Inspection and Resource Consents

The Revenue and Financing Policy in the LTCCP 2009-19 requires that 80% of the costs of the Building Inspection activity and 90% of the costs of the Resource Management Consents activity, be recovered through income from applications and other sources. These activities have not been meeting the targets, principally as a result of a reduced number of applications to the process, and are contributing to budget deficits.

What is Planned

The Council has recognised that there are a number of costs within the Building Inspection and Resource Management Consents activities that are of public rather than private benefit. These cost items include objections and appeals, customer services, complaints monitoring, project costs and government initiatives.

The costs of these items will now not be recovered to the same level through private good funding tools and will be funded by general rates.

The Council notes that this change is a variation to the funding split contained within the Council's Revenue and Financing Policy. The Council has indicated that it does not wish to change the Revenue and Financing Policy to reflect the identified changes in public benefit of these activities at this point in time. The reason for this is that the Council has decided that there are components of these activities that cannot be funded through fees and charges. As such the Council has made a decision that is inconsistent with the Revenue and Financing Policy and will look to review the Policy through development of the 2012-22 LTCCP.

CENTRAL GOVERNMENT CHANGES THAT IMPACT ON THE ANNUAL PLAN

Legislative Reform

Central Government is in the process of reviewing several key pieces of legislation and policies at the time of developing this Annual Plan.

Depending on the outcome of these reviews, this will impact on the operation, focus and costs of local government services and activities to varying degrees.

What is Planned

A number of the review processes are at an early stage and there is too much uncertainty around the outcome to make changes to Council's services or the budgets for those services. This includes a review of the Building Act 2004, Food Act 1981 and Sale of Liquor Act 1989. The Council will continue to monitor the progress of legislative reviews and respond as more information is known.

Where amendments to legislation have been finalised or a clear indication has been provided on the outcome of those reviews, the Council has adjusted its processes and budgets in accordance with those changes. The most significant impacts likely to affect the Council's operation during 2010/11 are as follows:

- Changes to the Local Government Act 2002: As part of these changes it is expected that the Council will no longer be required to carry out processes for the identification and monitoring of Community Outcomes in their current form (see Community Outcomes section for more detail). Further changes to the Local Government Act are proposed but not likely to impact on the 2010/11 year.
- Changes to the Resource Management Act 1991: These changes allow for the partial refund of resource consent fees, where the Council is responsible for not meeting statutory timeframes. There has been no change to the budget to accommodate this change.
- Changes to ACC levies have been made as part of its annual levy setting process. New levies, including changes to work levy rates that provide cover for work-related personal injuries, will apply from 1 April 2010. Central Government is also in the process of reforming ACC legislation which is likely to impact on budgets for the 2010. These changes have added \$100,146 to the budget.
- Changes are being proposed by the National Rural Fire Authority to enlarge rural fire districts. The purpose is to achieve efficiencies through pooling of resources. Replacement of the Whakatane rural fire appliance, at a cost of \$120,000, has been deferred pending the outcome of this proposal.
- A change to the level of Goods and Services Tax (GST) is planned: GST is a tax on the supply of goods and services in New Zealand. The current rate is 12.5%. As part of the May 2010 Budget announcements the Government has indicated that it will increase GST to 15% effective from 1 October 2010. These changes will effect the cost to the community of the Council's activities. In particular, the community should expect an incremental increase in Council rates and Fees and Charges from 1 October as a result.

The Council has traditionally set both its Fees and Charges and rates inclusive of GST. Because of the change in the GST rate from 1 October, rates have been set exclusive of GST. The funding impact statement contained in the Draft Annual Plan and the rating information contained in the section 'what it costs and what you get' are now stated exclusive of GST.

The Council has adopted two Fees and Charges Schedules. One applies from 1 July 2010 to 30 September 2010 with GST at 12.5% and the other from 1 October 2010 to 30 June 2011 with GST at 15%.

Water Related Projects & MoH Funding

The Council intends to undertake a number of projects during the 2010/11 year that rely on substantial subsidies from a number of partner agencies including Ministry of Health (MoH) The MoH is the major partner with funding available through the Drinking Water Assistance Program (DWAP) and the Sanitary Works Subsidy Scheme (SWSS) both of which are currently being reviewed.



What is Planned

The Council intends to undertake a number of projects in the 2010/11 year within the Water and Wastewater activities that are reliant on substantial subsidies from a number of partner agencies. At the time of writing this Annual Plan the success of subsidy applications from MoH had not yet been confirmed.

If subsidies from partner agencies are reduced or withdrawn and the Council cannot access them, a number of these projects may not be able to be undertaken in 2010/11. Projects would need to be reassessed with any possible alternatives investigated. This would affect the following water supply projects:

- Increasing the water storage capacity and extending the pipe network to reach more homes in Ruatoki.
- Replacement of water connections and installation of meters in Edgecumbe and Matata.

- Replacement and upgrade of pipes to provide greater capacity in Edgecumbe and Te Teko.

This will affect the following wastewater projects:

- Upgrade of the Edgecumbe pump stations and repair, replacement or reline pipes depending on their condition.
- Developing a complete new waste water system for Matata including piping waste to Edgecumbe and increasing the capacity of the Edgecumbe Treatment Plant to cope with the additional waste stream.

TRANSPORTATION PROJECTS AND NZTA FUNDING

As a result of a change in Government and changing priorities for the New Zealand Land Transport Agency (NZTA) some local transportation projects that were likely to receive subsidy funding from NZTA are no longer eligible. In particular, projects in the areas of walking, cycling and road safety will be affected.

What is Planned

The Council's transportation projects in the areas of walking, cycling and road safety were planned in the LTCCP on the basis of receiving substantial subsidies from NZTA. With a reduced number of projects being eligible for subsidies, the Council has needed to reassess its programme for the 2010/11 year.

For walking and cycling facilities this has meant that a number of projects that were intended to be undertaken during the 2010/11 year will need to be reassessed and will not progress during the year. This includes approximately \$1.05m worth of projects including pedestrian facilities in Matata and other rural areas, as well as cycle facilities in Gorge Road and other Whakatane urban areas.

The Council's work programme for road safety is being adjusted to align with the priorities of the new Government and in particular with regard to the recently reviewed Road Safety Strategy to 2020. These adjustments will look to align with the goals of the Road Safety Strategy in order to access subsidy funding from NZTA.



BUDGET CHANGES

Rates Affordability

The Council needs to operate and maintain assets and deliver services at a satisfactory level.

The LTCCP indicated that the Council, as a small-medium sized territorial authority, is grappling with the costs of delivering services and addressing poor maintenance of our infrastructure.

At the same time the Council is conscious of the cost implications on the community in terms of rating, particularly given the current economic climate, and has been working towards reducing the level of rates increase.

What is Planned

The LTCCP proposed an average rates increase of 11.9% for the 2010/11 year. Through development of the Draft Annual Plan the Council reviewed the operating and capital costs compared to what was planned in the LTCCP. This resulted in a reduction of the average rates increase to 8.49%.

The decisions made to accommodate this reduction considered the risks to established levels of service. It was noted that a slowing down in the work programme would result in some areas in the 2010/11 year as a result of the revised funding framework.

With an expectation of less external funding able to be sourced, the main area where reductions were achieved was in the capital works budgets for transportation projects (more information about specifically affected projects can be found in the Groups of Activities chapter of this Annual Plan). Other key reductions were also achieved in budgets for staffing costs, principally by not proceeding with a number of new positions and, revising operating costs across the organisation.

Following development of the Draft Annual Plan the Council has also had to consider the financial implications of:

1. The new solid waste operating environment,
2. The decision not to proceed with the sale of pensioner housing and,
3. The clean up and reinstatement works following the May/June floods.

The combined impact of these issues over and above the work programme outlined in the Draft Annual Plan meant the rates increase for the 2010/11 year could have been as high as 17.7%.

To accommodate these costs, the Council has made further changes to the budgets as outlined in the Draft Annual Plan. As a result, the rates increase for the 2010/11 year will now be 8.43%. This represents a small reduction in the proposed increase of 8.49% as included in the Draft Annual Plan.

The strategies associated with accommodating the costs of each issue are outlined in more detail within the related sections of this Key Issues chapter. At a high level, these strategies include:

- One-off use of the Harbour Endowment Funds to repay a loan for roading storm damage.
- Application of operational surpluses from the 2009/10 year.
- Use of accumulated reserves from previous years to retire debt.
- Revision of the capital expenditure programme, particularly in the area of Information Technology.
- Further reductions in operational expenditure throughout all activities.

One-off use of the Harbour Endowment Fund

The Council consider that the extraordinary events and resulting costs during the development of this Annual Plan place a significant financial burden on the community.

In particular, the cost of funding roading storm damage incurred in the 2009/10 financial year, comes at a time when the Council is attempting to accommodate major costs in relation to flood events and changes to the solid waste operating environment as well as progress necessary work on core infrastructure and IT improvements.

What is Planned

The Council has decided to use \$678,500 from the Harbour Endowment Fund in 2010/11, as a one off decision, to retire a one year loan raised for funding roading storm damage.

The Council believe this solution will provide relief to ratepayers across the District by reducing the overall rate increase in the 2010/11 year by 2.43%.

In making this decision the Council considered the impact that this would have on the balance of the Harbour Endowment Fund. The Council noted that the amount would be funded from interest and payments accruing to the Fund and that funds would not be drawn from the principal balance.

The decision to access the Harbour Endowment Fund is subject to approval by the Minister of Local Government before being finalised.

Sale of Properties and Reserves

As indicated in the LTCCP, one of the Council's key strategies to address the funding requirements has been to review its property portfolio to identify those that are no longer required.

Through the Draft Annual Plan, a number of reserves and properties (or portions thereof) were identified as possibly surplus to requirements and therefore suitable for divestment.

The following properties (or portions thereof) were included in the Draft Annual Plan for consultation:

- 127 Tahuna Road, Te Teko
- 298A Tahuna Road, Te Teko
- 59 Huia Road, Te Teko
- 19A Matai Street, Edgecumbe
- 26 Otakiri Road, Edgecumbe
- 2 Thornton Beach Road, Thornton
- 155A Thornton Beach Road, Thornton
- 31 Wilson Street, Matata
- 7 Amokura Road, Taneatua
- 37 Reid Road, Taneatua
- 16 Koromiko Street, Murupara
- 39 Waiewe Street, Whakatane
- 93 Valley Road, Whakatane
- 71 Riverside Drive, Whakatane
- 126 Awatapu Drive, Whakatane
- 189 James Street, Whakatane
- 63 Riverside Drive, Whakatane
- 2814 SH 30, Onepu

What is Planned

The Council will investigate the possible divestment of properties listed in the Annual Plan and in doing so will have regard to the submissions provided through the Annual Plan process.

The Council will only consider divestment where it is determined that the property or reserve does not meet any of the objectives that it was originally established for or where there are adequate properties or reserves in the locality.

Any proposed divestment process will be in keeping with the Local Government Act 2002 or Reserves Act 1977 (which ever applies). In the case of reserves held under the Reserves Act 1977 the status of the reserve must first be revoked and this process provides an opportunity for further public consultation, for public notice and for any submissions to be heard.

Deferral of the Arts and Culture Project

Through the development of the LTCCP early in 2009 the Council approved one of its most significant capital projects for many years. The project recognised that a long term solution is required to remedy the critical situation in the library and museum in terms of the space shortages, environmental controls and appropriate facilities.

In the 2009/10 year the Council purchased a property in the Esplanade Mall (former Briscoes building) in Whakatane for the development of an improved library and exhibition space. The existing Museum and Gallery building in Boon Street will be refitted as a collections storage, archives and research facility.

The Council appointed Irving Smith Jack Architects Ltd to develop their concept plans with a view to start construction during the 2010/11 financial year.

What is Planned

The Council has deferred the construction phase for the Arts and Culture project by approximately 6 months, from late 2010 to 1 July 2011. The financial impact of this is a saving of \$82,000 to the ratepayers in the 2010/11 year, as the Council will not be drawing down loans for a portion of the the project until the following year.

The delay in the construction of the project also enables a range of associated work streams for these new facilities to be completed. These include an operational review, future governance review, a funding plan, exhibition development plan, packaging and storage plan and cataloguing of library collections.

The project will need to attract additional funds from grants, trusts and central government. Applications for these are proceeding.



Funding for Storm Damaged Roading

The Council has not previously budgeted for a contingency sum each year to cover the cost to roading infrastructure of storm damage and other emergency events. This is a substantial cost to Council which has in the past been treated as unbudgeted expenditure.



What is Planned

Based on costs incurred in past years, the Council plans to put aside \$275,000 per annum as an annual contingency fund, which together with a contribution from the New Zealand Transport Agency (NZTA) provides \$500,000.

This money would only be used for reinstatement works for storm damaged roading following Council and NZTA approval.

If the contingency fund, or a portion thereof, is not spent in any one year, the Council's portion will roll over into the next year to build up the fund to a maximum amount of \$1.00m. This would provide funding for those years when

emergency works costs may be greater than the annual contingency sum.

Funding for Weather-Tightness Claims

The Council currently has outstanding claims lodged with the weather-tightness homes resolution service. Claims lodged from 1 July 2009 are no longer covered by insurance.

What is Planned

Last year the Council established a fund to provide for future weathertightness claims. In the 2010/11 year the Council plans to increase the current budgetary provision of \$100,000 per annum to \$150,000 per annum to meet the Council's ongoing costs associated with defending or settling weather-tightness claims. Any unused money will be held in a reserve account.

Funding Last Year's Deficit

During the 2008/09 financial year the Council's final operating result was a net operational deficit of \$10.89m compared to a budgeted operating surplus of \$8.87m. A number of factors contributed to the \$19.76m variation and these are detailed in the Annual Report 2008/09. Major contributing factors included:

- Revaluation downwards of some of Council's land assets.
- Increase in depreciation related to revaluations and the closure of Burma Road Landfill.
- Reduced income received from grants and subsidies.
- Reduced income received from development contributions and fees and charges for building and resource consent activities as a result of the slow down in the building sector.
- Operating expenditure over budget resulting from legal fees, aquatic centre consultancy, refuse collection contracts, audit costs and ACC levies.

The majority of the deficit is related to factors that do not affect cashflow, in particular depreciation and revaluations. However, the Council must now address funding the operating deficit of \$1.95m.

What is Planned

In order to fund the deficit the Council plans to apply accumulated funds from a number of reserves as well as meeting a portion of the cost through additional rates charges. The Council's intends to fund the deficit over a three year period. In taking this approach, the Council recognised that repaying the deficit in one year would increase the rates by a further 6.02% and this was considered to be too high a rating burden. Funding the deficit over three years has contributed 2.27% of the rating increase for 2010/11.