

## The Otorohanga District, Today and Tomorrow

### *Our District and Associated Planning Assumptions*

The Otorohanga District covers an area of 1976 square kilometres (197,600 Hectares) comprising a strip of land approximately 30 kilometres wide that extends from the shores of the Tasman sea in the West to the Waikato River in the East. Falling within the boundaries of the Waikato Regional Council, the District is a varied area containing diverse topography, productive farmland, extensive native vegetation, ocean beaches and protected harbours. It is a District with strong historical and cultural associations, dating back to the arrival of the Tainui waka in the coastal community of Kawhia 600 to 700 years ago. Kawhia and other locations retain considerable significance for Maori.

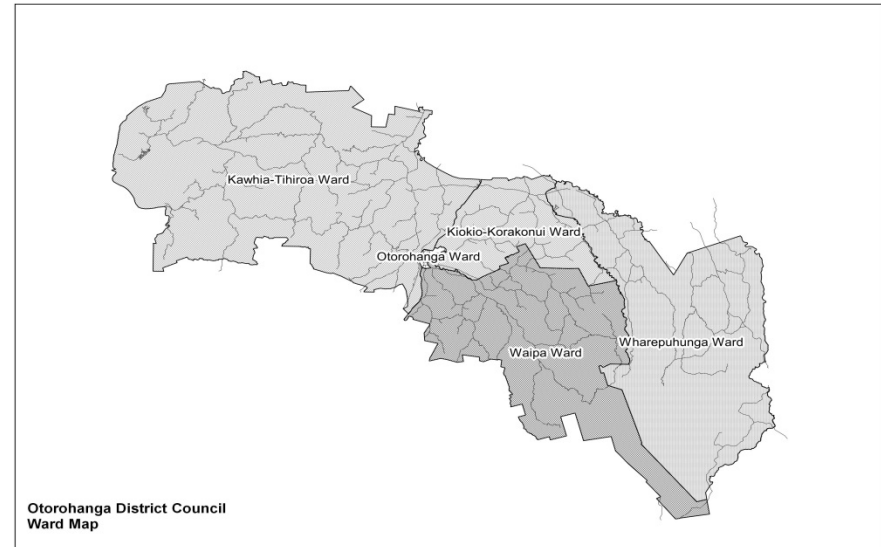
The Otorohanga District has existed in its current physical form since it was formed by the amalgamation of the former Otorohanga County and Borough Councils in 1971. The District contains 5,152 rateable units, spread over two significant Communities (Otorohanga and Kawhia) and the surrounding rural areas. For Local Government Electoral purposes the District is divided into 5 wards as shown on the accompanying map. The administrative and commercial centre of the District is Otorohanga, which has a resident population of approximately 2,700.

The District has a well-developed roading network, including State Highways 3, 31/39 and more than 800 km of local roads, whilst the North Island Main Trunk Line Railway also runs through the central area.

The following sections provide further information on the Social and Economic characteristics of the District, and outline key assumptions

<sup>1</sup> There are two measures used during the Census, normally resident population (where someone usually lives) and Census Night population (where someone was on the night of the Census). This may include people on holiday or visiting friends,

that have been made in the development of this Long Term Plan (LTP).



### *District Population*

The District had a normally resident population<sup>1</sup> of 9138 at the 2013 census, an increase of 60 on the figure recorded in 2006. This small increase was a change from a trend of slow declining population (at a rate of approximately -0.5% per annum) over the previous 10 years.

so the normally resident population is used to more accurately reflect the District population.

The 2013 census data suggested that the Otorohanga District currently straddles a relatively neutral zone in respect of population change, between northern regions around Hamilton which have experienced strong continuing growth, and areas to the south which have be subject to substantial ongoing decline.

Looking to the future, Statistics New Zealand population projections (shown in Figure 1 below) reinforce this relatively neutral position of the Otorohanga District, with indicated potential in the ‘Medium’ or ‘High’ scenarios for the District’s total population to be relatively little changed over the next 30 years, despite the forthcoming demographic changes that will occur with the aging of the large post-war ‘Baby Boomer’ generation.

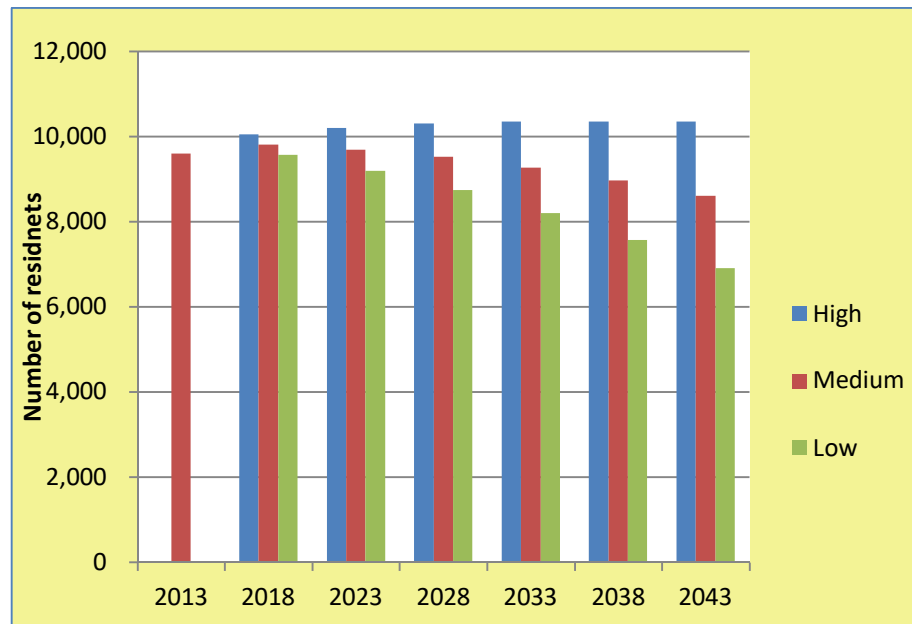


Figure 1 - Statistics NZ District Population Projections

This latest ‘medium’ projection strongly suggested that the most likely scenario – over the next 10 years at least –was for the District’s population to remain constant.

A similar conclusion has also been indicated by analysis conducted by the National Institute of Demographic and Economic Analysis in late 2014 as part of the development of the Waikato Plan, This suggested that the population of the Otorohanga District might only decline by 1% over the 2013 to 2033 period, followed by a much more substantial decline in subsequent years.

That these population trends for the Otorohanga District over the next 20 years are so weak does however suggest that they could be easily be changed or reversed by a range of potentially unforeseeable factors, and this has eventuated with the announcement of the three major development projects.

Even prior to the announcement of these projects the relative affordability of residential property in the Otorohanga Community in the current inflated property market suggested that there was potential to attract new residents who find it unaffordable to live elsewhere.

The prospect of the three major projects – and in particular the expansion of the Waikeria Prison – has however made the significant population growth a near certainty.

If the prison expansion proceeds (as everything suggests it will) the number of prison inmates will increase by 1500, adding directly to the District’s population.

Furthermore if sufficient relatively affordable additional housing was available in the District a further potential population gain of 500 associated with the employees of the prison and the other proposed major projects would appear quite feasible within the next 4 to 5 years, giving an overall population increase of 2000, a growth of more than 20%.

*Other Demographic Aspects*

The large development projects - and in particular the prison expansion – are also likely to have a significant effect on demographics beyond population numbers, probably slightly reducing average age and slightly increasing the proportion of Maori.

These changes are however not expected to have substantial effects on the District as a whole, and the remaining comments in this section - based on the assessment made in 2014 - are still considered to be largely valid.

The ethnic composition of the District is predominantly European and Maori, with other ethnic groups being only very lightly represented.

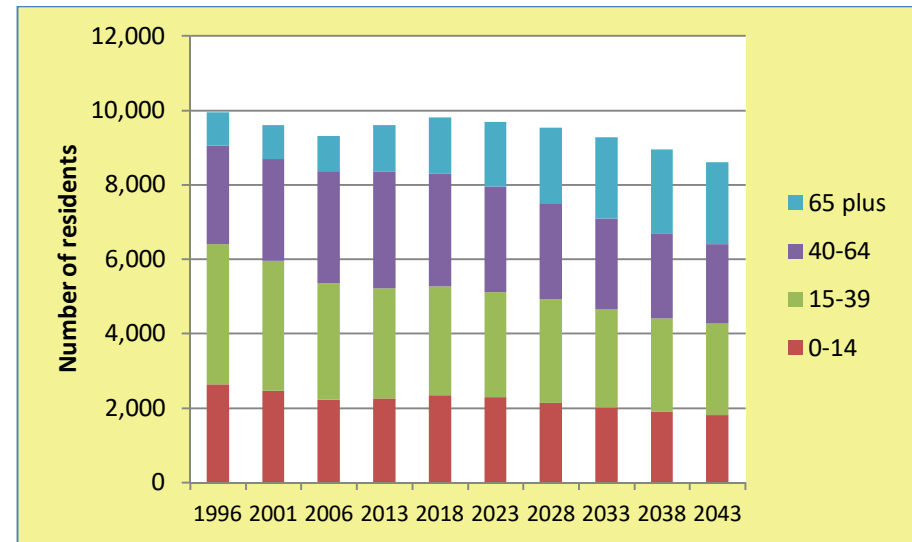
Of the District's population 26% is of Maori descent, which is well above the national average of 14%. In recent years the overall proportion of Maori in the District has slightly decreased, and the proportion of the population commonly speaking Maori has also decreased to 6.3% at the 2013 census.

The median age of permanent residents in the District is similar to the national average at 36.3 years, though the mean age of Maori residents is significantly less than this at around 30 years.

The median age of District residents is forecast to increase in line with national trends linked to the 'Baby Boomer' generation, but not to as great an extent as in some other districts, with a forecast maximum median age of about 41 years being reached in 2038.

Whilst the increase in median age appears to be modest, the proportional increase in numbers of 65 plus age residents will be large, with a likely more than doubling of such residents in the period between 2006 and 2028.

The projected composition of district population by age, for the SNZ 'Medium' projection is shown in Figure 2 below.



**Figure 2 - Projected District Population by Age Groups, Medium Growth**

That median age is not forecast to increase as much as in some other districts (many of which are projecting future median ages of around 50 years, and some close to 60 years) is because of a projected retention of younger residents to counteract the 'Baby Boomer' effect. The increasing number of older residents has potential to have a particularly significant effect on the urban communities, where there is already approximately 20% of the population above this age. The ready availability of medical and other support services is therefore likely to be a key issue in the future, with the average level of health deprivation in the District (as represented by the relevant Ministry of Health Index Data) already relatively high at 7.2, and significantly higher in the Otorohanga and Kawhia urban communities (deprivation indices of 9 and 10 respectively).

There is potential for health service issues to become critical if there is a continuing decline in the overall population of the District that makes existing delivery modes unsustainable.

At the other end of the age demographic, the proportion of the population that is under 15 years old is 23.5%, above the national average of 21.5%. This proportion has however been relatively stable in the District over the past 10 years, and as such it would not be expected that significant further rationalisation of educational services will be required in the short term.

With an average educational decile of approximately 5 across all schools, the District is similar to the national average, and is significantly better than many other rural areas.

In recent times Council and associated agencies have had an extremely strong focus on youth issues, with a vision that the positive potential of local youth will be developed to the greatest extent possible, through provision of enhanced recreational, educational and employment opportunities. Council has had a long-standing objective that all young people under the age of 25 should be involved in appropriate education, training, work or other options, which will lead to long-term economic independence and well-being.

This approach is believed to have had a range of benefits, including contributing to a low level of crime in the area, with an annual reported crime rate in the Otorohanga Police area (which encompasses the majority of the District) of typically around 600 incidents per 10,000 population, which is well below the national and Waikato region averages of around 1,000 incidents per 10,000 population.

Council therefore views local youth positively and the rapidly aging profile of District residents in future years will make younger people an increasingly valuable resource, and a continuing commitment to the existing philosophy of 'Zero Waste' in respect of the District's youth is therefore considered entirely appropriate.

## *Economic Activity*

Agriculture is the economic backbone of the District, with 34.5% of the District's employed population listing their occupation as falling into the 'Agriculture, Forestry and Fishing' grouping.

This dominance of primary agriculture as an occupation is very great, with the next largest occupation group (manufacturing) accounting for only 8% of the working population.

Agricultural land in the District is in general very effectively utilised, with most of the land suitable for dairy farming being used for this purpose, leaving little practical scope for further value adding farm conversions.

There is however evidence which suggests that the extent of direct employment in agriculture is declining, with census data indicating that this employment category may have diminished by as much as one-fifth over the past 20 years, presumably in response to changing land uses and increased mechanisation.

Despite this apparent decline it is still believed that upwards of 75% of all economic activity in the District is closely associated with the agricultural sector, and agriculture is expected to remain the dominant activity within the District for the foreseeable future. Some of the Otorohanga community's larger businesses have also made significant capital investments that reflect an intention to remain in the community, which is viewed very positively.

The prevailing economic climate has however been difficult for some of the smaller Otorohanga businesses, and there have been some changes to businesses in the retail and service sectors, though it is suspected that these changes have occurred without any substantial net loss or gain in total employee numbers.

It is currently suspected that some commercial sectors in Otorohanga are served by an excessive number of businesses, and that the sustainability of some of these businesses is uncertain, and that it would be preferable for a greater degree of diversification.

The Kawhia Community continues to have only a very limited amount of business activity, and it has become generally accepted that the nature of Kawhia is such that there is likely to be little opportunity for further business development unless a major mineral extraction operation was to be established in the area, which currently seems unlikely.

Of the other sectors it has been previously believed that tourism and hospitality probably has the greatest potential for growth within the District, but to date little such growth has been achieved, though some progress may in future be made through Taharoa 'C' Incorporation's investments in Kawhia. Whilst it is still considered that more opportunities in tourism and hospitality exist, realization of these opportunities clearly needs entrepreneurial skills that are likely to be uncommon.

In this relatively challenging economic environment the announcement of the three proposed major projects – prison expansion, power station and dairy factory – has been particularly welcome.

Whilst much of the economic value of these major projects may not be captured within the District, the scale of these enterprises is such that the proportion that is captured locally will still be very significant, far exceeding any other development that has occurred in recent years,

Using the availability of water as a driver of economic growth is still seen as an opportunity for further growth as it has become clear that many of the current growth areas within the Waikato now have very limited ability to meet the water supply needs of new businesses.

Council has initiated a number of initiatives to support the availability of water for new residential or industrial developments in and around Otorohanga, and it is believed that these can provide a distinct advantage for the community in respect of economic development.

Other water related issues do however pose economic development challenges for the District, such as the Healthy River / Wai Ora Proposed Waikato Regional Council Plan Change. Whilst the objectives of the proposed plan change may be commendable, its implementation will impose some further constraints on the agricultural productivity of the District, These impacts will however be progressive over a proposed 80 year time frame, and as such are unlikely to be pronounced during the period of this LTP. Overall it is believed that the economic prospects of the District have substantially improved since the previous 2015-25 LTP was developed, largely because of the emergence of the three major projects. There is now believed to be greater potential for improvement of economic conditions relative to those currently being experienced, than there is for deterioration of those conditions. The LTP is therefore very much a 'business as usual' plan, generally focused on retaining the existing extent and levels of service at minimum cost.

### *Household Finances and Employment*

Residents of the Otorohanga District have generally been in a relatively sound financial position. The average (mean) annual household income in the District has typically been around 10% higher than the national average of that found in other similar rural Councils.

This apparently very strong result does however in part reflect the very high levels of income received by some farmers, and the more typical median annual household income of \$58,600 in 2013 was somewhat below the national average of \$63,800.

There is clearly a wide range of individual financial circumstances in the District, with the Kawhia community having a median income which is little more than half of that found in some rural wards of the District.

Council is mindful that whilst the overall financial condition of the District may be satisfactory, there are a significant number of ratepayers whose economic circumstances are difficult, and for whom substantial future increases in housing costs or Council rates are likely to be very challenging.

Though household circumstances are quite variable, unemployment rates in the District have historically been relatively low, and at the 2013 census were 5.7%, lower than the national figure of 7.1%.

These relatively low levels of unemployment are believed to be in part due to the range of youth employment initiatives driven by Council and associated agencies. The proportion of District ratepayers who are beneficiaries and otherwise on fixed incomes were 26% in 2006. This is well below both the national average of 30.6% and what is found in a sample of other comparable rural Districts.

Whilst the forthcoming large development projects will create more jobs it is suspected that the effect of this on local unemployment may be limited as unemployment rates are already considered close to inherent base levels. As such the general assumption is for levels of unemployment to be little changed.

In terms of longer term economic outlook the agricultural sector forms the backbone of the local economy and is believed to be fundamentally robust.

The agricultural sector does however continue to experience significant volatility in demand and prices for its products, with the recent large and rapid fluctuations in international dairy prices exemplifying this.

The Ministry of Agriculture, Food and Fisheries makes regular projections of commodity prices and volumes over 4 year periods, but the usefulness of these projections is considered limited, and no attempt has been made to incorporate such data into development of this LTP.

Worldwide there is however a very limited quantity of land with potential for intensive agriculture, whilst the world has a growing population demanding more agricultural produce, both as food and as a source of energy. Though in the short term there may be significant variations in the strength of the agricultural sector it appears reasonable to believe that in the long term the fundamental high productive value of land within the District will protect it against sustained high levels of local unemployment.

Another aspect of employment that is however of concern is the possible escalation of existing difficulties in attracting professionals and other senior specialist workers to the District.

It had previously been expected that the periodic weakening of the global and national economy would provide opportunities to bring highly skilled workers into the Otorohanga District, but this does not as yet appear to have happened, and some senior positions remain difficult to fill.

This, combined with the impending retirement of the 'baby boomer' generation that will create employment vacancies at a senior level, has potential to create some significant recruitment challenges for employers within this District.

### *Property Development and Values*

In relation to housing the District is considered to generally be in a position of comparative strength, with around 60% of residents having full or partial ownership of their own homes, a figure that has changed little in recent years.

The District is however at present feeling the effects of the supply and demand imbalance in respect of housing that has spread through much of NZ, and has potential to create hardship for some residents.

The Otorohanga District, like much of NZ, experienced something of a property value 'bubble' between 2005 and 2007. Residential

property in the urban areas was most significantly affected, with a near doubling of residential property values occurring in Otorohanga over a period of little more than 2 years.

Over the period between 2008 and 2012 there was a significant downward correction to property values and levels of development activity.

Since 2015 residential property values have however been increasing, with 2017 government valuations indicating increases of around 20% over the past three years across most property classes.

There is however considered to be potential for significant differential movement of property values in the future, that could have adverse effects both on affordability and distribution of Council costs.

There is currently very little residential accommodation available for sale or rent in the central areas of the District, and it seems likely that the additional demand for accommodation created by the major forthcoming projects will exacerbate this situation, further inflating prices.

It does however seem unlikely that substantially increased house prices could be sustained in the longer term, as it would not be expected that our district would face the ongoing growth pressures that may exist in larger centres.

## Potential for Natural Disasters

Recent events in Christchurch have highlighted the potential for natural disasters to have major influence on Communities. In response to this Council has recently re-evaluated its exposure to natural disasters. Risks are summarized in Table 1 below.

**Table 1 - Risks of Natural Disasters in Otorohanga District**

| Risk Type                            | Comments   |
|--------------------------------------|--|
| Earthquake                           | District remote from high risk zone, thinly distributed population and development, few highly susceptible buildings or structures.  |
| Flooding                             | Otorohanga community on a flood plain, previous disaster event experienced, with a likely 1 in 500 year recurrence. Climate change may be increasing risk. Community stopbanks do not provide full protection. Low risk elsewhere. |
| Volcanic Eruption                    | Events up to 1 in 5000 year (20mm average ash fall) have limited effect.   |
| Tsunami                              | West coast has low tsunami risk, 1 in 500 year event has predicted surge height around 1.5 metres on open shore, further reduced in harbours for Kawhia/Aotea  |
| Other Coastal Erosion or Storm Surge | Aotea & Kawhia have limited risk areas, erosion or likely to be progressive, surges of limited depth   |
| Wind Damage                          | Generally relatively low risk for all NZ   |
| Landslide                            | Inherently low risk due to topography and settlement pattern   |

The primary conclusion of this risk evaluation is that by far the most significant 'traumatic' natural disaster risk within the District is the potential flooding of Otorohanga, and that an improved plan was required to manage such an event, which has now been prepared.

The need for some relatively minor improvements to the stopbanks protecting Otorohanga was also identified, and this work has also now been completed.

Significant risks are also associated with volcanic ash fall, particularly in relation to the agricultural production of the District, but there is little that can be realistically done to manage these effects.

Similarly it is recognised that a prolonged drought is a 'non-traumatic' event that could have a severe effect on agricultural production, but again there does not appear to be any action that Council could realistically take to mitigate the effects of such an event.

As such, and whilst recognizing that there is inherent uncertainty in relation to such events, the potential occurrence of natural disasters has had relatively little influence on the development of this LTP.

## Climate Change

The current climate of the District is moderate in all respects, and the topography of the area is also relatively moderate and physically stable, limiting the potential adverse effects such as flash flooding and erosion. These factors contribute to there being little agricultural activity within the District that is only marginally suitable for the location at which it is being conducted. As such it would not be expected that there would be significant sensitivity of the agricultural sector to potential climate change over a relatively short period of 10 years, even if a well-defined trend existed.

Similarly most significant water sources in the District have been proven to be reliable even in the drought conditions of recent summers, and as such it seems unlikely that any climate change over

the next 10 years would be sufficient to result in major water shortages.

It is recognised that in the long term climate change could affect the agricultural sector and some other activities in the District, but to date Council is unconvinced that any existing climate change forecast data is sufficiently reliable for it to be used to significantly influence any decisions of Council over the period of this LTP, other than those associated with the review of Council's District Plan, which are based upon expert advice from specialist consultants.

## Other Environmental Issues

During the last 15 years there has been a significant change of perceptions in respect of environmental issues within the District that largely reflects changing societal values. These changing perceptions have been most evident in the Kawhia / Aotea area where increased environmental activism and awareness of historical, cultural and environmental issues has resulted in successful legal challenges to decisions made by Council under its operative District Plan. This resulted in a revision of the Plan being undertaken.

Whilst the new District Plan will to some extent increase the restrictions on development, the resultant effect of these changes is expected to be limited, as in many cases the activity being restricted is one that has seldom if ever been undertaken in the District.

As such whilst some parties view the new plan as unacceptably reducing their freedom to undertake certain activities, the fact remains that previously most of these parties have themselves chosen not to undertake these activities.

It is also believed that the accompanying greater clarity of the new District Plan will be of benefit to prospective developers, reducing the uncertainty that has existed in the past. As such it is not expected that the introduction of the new District Plan will significantly reduce development that might otherwise have occurred in the District.



Council does however recognise the need to balance environmental protection against potential for growth, and believes that central government legislation may have swung too far towards a protective stance. The indications that central government may moderate some aspects of the Resource Management Act are therefore welcomed, and it is not generally expected that any significant further environmental responsibilities or constraints will be placed on Council by central or regional governments in the near future, other than the Heathy River / Wai Ora Plan Change, which was referred to in the section on economic development.

### *Extent and Standard of Council Services*

Significant changes in District population (around 20%) and economic activity are now expected during the period of this LTP, largely because of the three proposed major projects and associated developments.

The majority of the expected population increase is however from increased inmate numbers at a prison located at the fringes of the District, which will have limited impact on Council services other than an initial need to upgrade a relatively short section of access road.

Of greater significance in respect of Council services is the potential for some new prison employees to reside in the District. Most of these new non-inmate residents would be expected to be drawn to the Otorohanga Community, creating additional needs for housing and supporting water and wastewater services.

Previous experience suggests that the private sector cannot be relied upon to undertake substantial property development in Otorohanga, and for this reason Council is proposing to again become involved in this activity.

The provision of additional water supply for potential new residential and commercial developments could require some modest further

investment, but is not considered to be particularly challenging because of plans and initiatives that have already been put in place.

It would also be expected that there could be some growth in the rural areas through development of further 'lifestyle blocks' particularly in the northern areas of the District.

In terms of overall costs maintenance and improvements of roads is by far the most significant activity of Council, and this is unlikely to change. Further details of how Council will manage its key infrastructural activities of Roading and Water Services are presented in Council's 2018 – 2048 Infrastructure Strategy. At this time no substantial changes to this strategy are envisaged. Whilst it is possible that population growth in Otorohanga associated with the major development projects could require some limited extensions of water and wastewater capacity, it is as yet considered too early to reflect this in detailed planning.

It is recognised that changes in national and regional regulations will take effect during the period of this plan that are likely to influence renewals of resource consents, particularly in respect of water supply, where the Water Allocation Policy of the Regional Council will require greater emphasis on efficient water use. Appropriate responses to such issues have however been incorporated into asset management planning, and as such Council does not envisage any significant consent renewal problems at this time.

Council's existing fixed assets are largely sufficient for it to conduct its activities at the planned levels, and Council fully funds the depreciation on these assets, except on certain assets as identified on page 52. The funded depreciation is used to fund capital expenditure requirements. Refer to the depreciation note in the Statement of Accounting Policies for the useful lives of assets.

The Council fully funds the replacement of assets in accordance with the Revenue and Financing Policy on page 219.

The costs that the Council has to pay to deliver roading and its other activities are likely to continue to increase. These increases are expected to be brought about by a number of factors, which may include:

- Inflation
- Interest rates on borrowings
- Interest rates received on cash surpluses.
- The valuation of assets
- The ability to receive competitive tenders for contracts.
- International market prices of components of infrastructure building, such as steel, oil, bitumen etc.

### *Mode of Delivery of Council Services*

Since 2009 much consideration has been given to potential alternative modes by which Council services could be delivered, which might have potential benefits for residents and ratepayers in respect of the cost, quality and/or sustainability of those services.

As a very small District this Council must give consideration to potential opportunities to work with other Councils, either through amalgamation or collaboration.

The notion that potential 'economies of scale' can be achieved where Councils work together has been frequently promoted by various parties, but there has been little hard evidence to support this view, particularly where there is significant geographical separation between the areas being served. For many of Council's activities there are inherent operational costs that cannot be reduced through joint delivery arrangements.

Potential collaborative delivery of a broad range of services has recently been investigated, and it has been indicated that the overall potential cost savings are very modest, even in a likely best case situation.

Some of these potential collaboration opportunities are however being explored or conducted through initiatives implemented under the auspices of the Waikato Mayoral Forum, in the belief that there may be other worthwhile benefits in addition to the relatively modest financial savings.

The greatest overall benefits of joint service delivery are however most likely to be achieved through the comprehensive integration that occurs in an amalgamation of Councils.

The challenge accompanying such an amalgamation lies in achieving an acceptable degree of equality between the partners, in respect of District character, elected representation and economics (to avoid one District subsidizing the other).

In respect of the first two of these criteria, the Otorohanga and Waitomo Districts are potentially compatible amalgamation partners, but significant economic differences (relating both to inherent costs of operating Council services and accumulated debt) continue to pose a significant barrier to such a union from the perspective of this Council.

On the other hand a potential amalgamation with other Councils to the north of the Otorohanga District may initially appear attractive in terms of economics and sustainability, but this would be a very unequal partnership in terms of representation. Without substantial representation on an amalgamated Council, the initially perceived benefits of amalgamation for the smaller partners may not be realized or sustained.

It seems inevitable that any Council giving consideration to an amalgamation will act in the perceived best interests of the ratepayers and residents that they currently represent, and it therefore appears unrealistic to expect that a mutually acceptable voluntary amalgamation proposal involving the Otorohanga District will emerge in the near future.

On this basis this plan assumes that there are limited changes to the mode of Council service delivery during the term of this LTP.

### *Inflation*

In preparing this LTP Council has used projected inflation adjustment factors as provided by Business and Economic Research Limited (BERL) in their report of September 2017. The figures in Table 2 below show the per annum escalation adjustments applied to particular cost groups relative to the year ending 30 June 2019 as the base year, hence zero inflation in that year.

**Table 2 - Inflation Adjustors**

| Year Ending | Planning & Regulation<br>% | Roading<br>% | Transport<br>% | Community Activities<br>% | Water and Environmental<br>% |
|-------------|----------------------------|--------------|----------------|---------------------------|------------------------------|
| June 2019   | 0.0                        | 0.0          | 0.0            | 0.0                       | 0.0                          |
| June 2020   | 2.1                        | 2.2          | 2.0            | 2.0                       | 2.5                          |
| June 2021   | 2.1                        | 2.2          | 2.1            | 2.1                       | 2.3                          |
| June 2022   | 2.1                        | 2.3          | 2.2            | 2.1                       | 2.4                          |
| June 2023   | 2.2                        | 2.4          | 2.2            | 2.2                       | 2.4                          |
| June 2024   | 2.3                        | 2.4          | 2.3            | 2.3                       | 2.5                          |
| June 2025   | 2.3                        | 2.5          | 2.4            | 2.3                       | 2.6                          |
| June 2026   | 2.4                        | 2.6          | 2.5            | 2.4                       | 2.6                          |
| June 2027   | 2.4                        | 2.7          | 2.5            | 2.4                       | 2.7                          |
| June 2028   | 2.5                        | 2.8          | 2.7            | 2.6                       | 2.8                          |

### *Subsidies*

Council has made the assumption that the subsidy received from the New Zealand Transport Agency (in most cases 58% for maintenance and capital expenditure) will be maintained at these current levels.

### *Interest rates*

Council funds a substantial portion of its capital works through raising debt, and the cost of servicing such debt therefore has a significant impact on the cost of providing those activities.

While interest rates can be volatile, Council has elected to use a flat interest rate of 3.5% on borrowings, and 3.5% on activity balances. These rates were arrived at after taking account of Council's projected borrowing requirements, and assumptions made around the interest rates that Council may be able to achieve on those borrowings. A weighted average interest rate of 5.5% was deemed by Council to best reflect the likely interest costs of the Council.

### *Valuation of Assets*

Council's assets are valued every 3 years, in conjunction with the LTP timeframe, and the valuations obtained are used to determine the levels of depreciation charges applicable to asset based activities, which may again be reflected in the cost of that activity to ratepayers.

The last revaluation was effective from 1 July 2017. Revaluations during the span of the LTP will be conducted for years commencing 1 July 2020, 1 July 2023 and 1 July 2026. To determine the likely impact of these valuation changes, Council has used the BERL adjustors for inflation as an indicator of likely valuation changes.

Table 3 below highlights the valuation increases used.

**Table 3 - Valuation Increase Adjustments**

|                 | 1 July 2020 | 1 July 2023 | 1 July 2026 |
|-----------------|-------------|-------------|-------------|
| Piped Assets    | 6.8%        | 7.7%        | 9.1%        |
| Roading Network | 6.3%        | 7.4%        | 8.8%        |
| Land            | 5.5%        | 6.9%        | 8.0%        |
| Buildings       | 5.5%        | 6.9%        | 8.0%        |

*Summary of Significant Assumptions*

| Forecasting Assumption   | Associated Risks  | Level of Uncertainty   | Reasons & Financial Effect of Uncertainty   |
|--|---|--|---|
| Potential 20% population increase over next 4 years associated with prison expansion & other major development projects. | New housing required with Council investment if extra residents are to be retained. | Moderate; Large increase of prison inmates very likely, employment related growth less certain | Housing market uncertainties, potential council investment not recovered, failure to retain new residents |
| Increase in population over 65 years of age of more than 3% per annum  | Influences on ratepayer ability to pay and demand for medical services etc.         | Low  | Demographic trend well established. Little direct financial effect  |
| Little short term change in unemployment   | Influences on ratepayer ability to pay  | Low  | Unemployment near base level & new jobs being created.  |
| Population under 15 years of age stays consistent  | Declining proportion would threaten viability of schools, weaken future labour pool | Moderate   | New jobs likely to offset demographic trend Little direct financial effect.                               |

| Forecasting Assumption   | Associated Risks   | Level of Uncertainty  | Reasons & Financial Effect of Uncertainty   |
|--|--|---|---|
| 1% to 1.5% increase per annum in traffic volumes on roads              | Higher rates increase for road maintenance and improvement requirements                            | Moderate; Figures from AMP based on existing local trends   | Financial effects limited as significant spare capacity in much of network.   |
| Existing Resource Consents for Council services will be renewed        | Services such as water supply and drainage require Resource Consents for continuance               | Low   | Relevant activities are of limited & stable extent, high level of compliance with existing consent conditions is achievable |
| Infrastructural asset lives based on NAMS or other relevant guidelines | Over-estimation of asset lives results in underestimation of renewal requirements and depreciation | Moderate; general acceptance that actual lives are dependent on variety of factors, not easily assessed | Adopted expected lives considered conservative. Effects of long-life asset uncertainties only evident in longer term        |

| Forecasting Assumption  | Associated Risks   | Level of Uncertainty  | Reasons & Financial Effect of Uncertainty  |
|---|--|---|--|
| Introduction of new District Plan does not significantly affect economic development              | Provisions of new plan might prevent development that might have otherwise occurred        | Low. Little evidence of new plan constraining development since it was introduced   | Changes to Plan affect only small range of potential activities  |
| No significant new environmental controls on Council activities, other than possibly on water use | Significant new requirements could increase Council's costs and/or further restrict growth | Low   | Government not supportive of increased control in these areas, increased regional Council role unlikely in short term, other than for water                        |
| Direct climate change effects are minor during plan period  | Climate change could influence rural economy & climate related assets.                     | Direct climate change uncertainty low in plan period, moderate/high in longer term. | Limited direct financial effects in short term as local land & agriculture generally not climatically marginal & limited climate dependant asset creation/renewal. |

| Forecasting Assumption   | Associated Risks   | Level of Uncertainty   | Reasons & Financial Effect of Uncertainty   |
|--|--|--|---|
| Inflation estimates based on BERL indicators                                 | Moderate; higher than expected inflation has major effect on rates affordability, though effect may be offset by household income growth | Moderate; unprecedented global economic situation casts doubt on conventional inflation forecasting methods. | Expectation that variances from assumptions likely to be generally lower (favourable). Government stimulus spending could raise inflation for infrastructure. |
| Subsidy rate % from NZTA will remain constant for the full period of the LTP | Moderate. Even minor reduction of subsidy has major effect on rates affordability.   | Moderate; Recent revision of rate to ODC's benefit, but available funds uncertain                            | Whilst subsidy rate known it does not ensure sufficient funds available to meet ODC's needs.  |

| Forecasting Assumption                                | Associated Risks  | Level of Uncertainty  | Reasons & Financial Effect of Uncertainty  |
|---|---|---|--|
| No adjustments made for future changes in legislation | There are unexpected changes to legislation that alter the nature of services provided by the Council | Moderate; Most changes to legislation are known in advance giving the ability to prepare for implementation | Council would need to consider the costs and user charges/rating required to fund any new services. The financial uncertainty would be around the introduction of changes and the training needs of staff. |
| Little potential for significant natural disasters    | Natural disaster has potential to result in substantial additional costs to Council                   | High  | Nature of district limits potential exposure to effects of disaster; Otorohanga flooding most predictable (1 in 500 year) risk.  |

| Forecasting Assumption  | Associated Risks   | Level of Uncertainty   | Reasons & Financial Effect of Uncertainty  |
|---|--|--|--|
| Interest rates will, on average over the period of the 10 years, be 5.5% on borrowings                    | Large increases in interest rates could result in significant changes to the interest expense.                               | Moderate, given that all current loans are fixed, however there is a possibility of future rates increases | An increase of 0.5% would add \$30,000 to the interest expense in 2018/19  |
| Council will not have issues obtaining loan funding where required to undertake significant capital works | Potential higher interest costs if adequate funding is not obtainable, inability to complete projects due to lack of funding | Low  | Given current levels against target levels set by Local Government Funding Agency, unlikely to breach targets, therefore funding should be available |

| Forecasting Assumption  | Associated Risks   | Level of Uncertainty  | Reasons & Financial Effect of Uncertainty  |
|---|--|---|--|
| Council will not have issues sourcing funding for the replacement of assets | Sources of funds are inadequate to fund the replacement of significant assets                          | Moderate  | If funds are inadequate for the replacement of significant assets, work may not be progresses as per timing in the plan. Operational expenditure may rise as a result in an attempt to extend the life of the assets |
| Future asset value increase proportions based on BERL indicators            | Under-estimation of future value increases cause depreciation shortfall, increasing rating requirement | Moderate for land and buildings, low for other asset groups | Financial effects limited for high value long-life assets because of frequency of revaluation cycle, enabling corrections  |
| Rental Income will increase in proportion to relevant inflation indices     | Over-estimation of rental income will increase rating requirement                                      | Low   | Projected increases are modest and extent of rental revenue limited  |

| Forecasting Assumption  | Associated Risks  | Level of Uncertainty | Reasons & Financial Effect of Uncertainty  |
|---|---|----------------------|--|
| Council's return on investments is based existing returns inflated as per BERL indicators | That actual returns achieved are lower than this return       | Low                  | Councils investment returns are so small (dividends on some shareholdings) that there would be no significant impact on income |
| Extent, complexity and cost of LTP audit requirements will not significantly increase     | Additional rating requirements and associated resource issues | Low                  | There are currently no signals from central Government of any additional requirements.   |



## Community Outcomes

### What Are Community Outcomes

“Community Outcomes” means the outcomes that a local authority aims to achieve in meeting the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions.

### Background

Changes made to the Local Government Act 2002 (the Act) at the end of 2010 changed the definition of Community Outcomes from being those that are developed and implemented in conjunction with the community to those that Council itself aims to achieve. Notwithstanding this change Council believes that the Community Outcomes can only be achieved through working in partnership with the whole community, including individuals, businesses, government agencies and community organisations. Everyone’s views on describing how our District would look if we achieved these Outcomes will be slightly different, but we have put a description below each Outcome to help you understand what we are working towards.

### Otorohanga District Council Community Outcomes



#### **Otorohanga District is a safe place to live.**

We support the opportunities for Otorohanga residents to enjoy a good quality of life.

We are a resilient community with a Civil Defence service that assists residents and businesses to cope with disasters or emergencies.

Our communities health and well-being is safeguarded by ensuring standards of construction, food safety and registered premises operation are met, and that alcohol sale and consumption, risk from fire and nuisances (e.g. from dogs and stock) do not adversely affect quality of life.



#### **Ensure services and facilities meet the needs of the community.**

We have good quality, sustainable, integrated, affordable, efficient and effective transportation networks (including roads and footpaths), water, wastewater, stormwater and solid waste services.

Waste and pollution is minimized, so we have clean water, clean seas, clean air, healthy flora and fauna and soils, and public health needs are met.



#### **Provide for the unique history and culture of the district.**

We have a strong sense of community and are proud of our region, our communities and our diverse heritage.

Important heritage items, sites and stories of the District are protected for future generations.

Maori culture and tikanga (traditions) are acknowledged as taonga (treasures) that represent our regional uniqueness.

We value and support those things that make Otorohanga District special and unique – our Maori History, our people, the outdoors and the relaxed atmosphere.



**Promote the local economy and opportunities for sustainable economic development.**

We all participate in the District economy and it meets people's needs.

Small, locally-owned businesses are an essential part of the community.

We encourage appropriate new investment into our community.

Our youth can live, learn and work in Otorohanga.

We recognize, support and celebrate innovation and achievement.



**Manage the natural and physical environment in a sustainable manner.**

We recognize the importance of a healthy environment for tourism and productive land users, and the need to minimize the impacts of human activities on the environment.

We treasure, protect and restore the special places, landscapes, native species and natural ecosystems of the Otorohanga District.

Open spaces are linked and productive land is protected.

We also provide and monitor resource consents and, if necessary, prosecute any breaches.



**Foster an involved and engaged community.**

We work together as a District, think of the generations that will follow and listen to the full range of views.

Everyone has the opportunity to participate in the community's major decisions and information is easy to obtain.

Leaders consult with and understand their communities and work for the good of all.

Our leaders take responsibility for their decisions and act to improve the big issues facing our community.



**Protect the special character of our harbours and their catchments.**

We manage air quality, waste, freshwater and coastal waters.

Our harbours, waterways and wetlands are preserved and protected.



**Recognise the importance of the District's rural character.**

We manage lifestyle development to not conflict or inhibit existing rural activities.

We recognize that our rural landscape should receive a high level of protection and natural, historical and outstanding landscapes are protected by landowners.