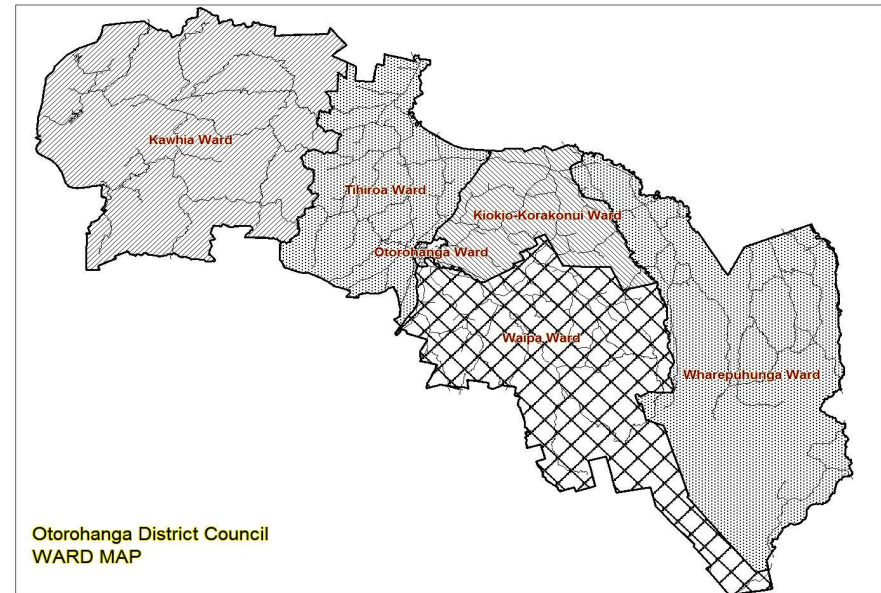


THE OTOROHANGA DISTRICT, TODAY AND TOMORROW

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 5,173 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 6 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.



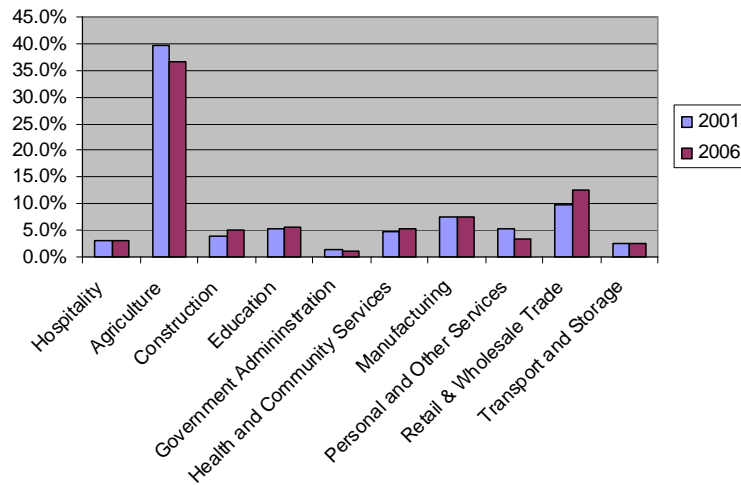
The District has a well developed roading network, including State Highways 3, 31/39 and more than 900 km of local roads, whilst the North Island Main Trunk Line Railway also runs through the central area.

The following sections provide further information on the Social and Economic characteristics of the District, and outline key assumptions that have been made in the development of this LTCCP.

District Demographics and Economy

Agriculture remains the economic backbone of the District, directly providing 37% of employment in the District, and supporting many further jobs in associated industries and services. It is probably not unrealistic to estimate that upwards of 70% (by value) of all economic activity in the District is closely associated with the agricultural sector.

Employment - Key Trades

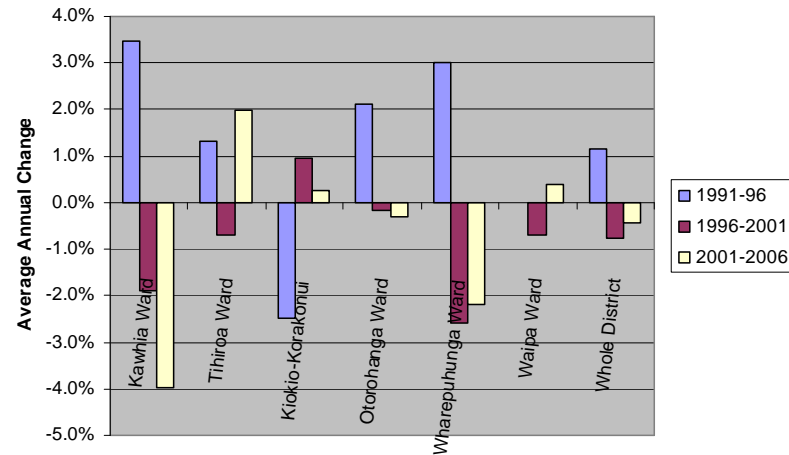


Of the other sectors it is believed that tourism and hospitality probably has the greatest potential for growth in the medium or long term, but even with such growth these activities are likely to remain a relatively minor component of the District's overall economy, and in the short term the environment appears challenging for such businesses. Agriculture is therefore expected to remain the dominant activity within the District for the foreseeable future.

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

The District had a normally resident population¹ of 9075 at the 2006 census, having registered a slow decline of population (at a rate of approximately -0.5% per annum) over the previous 10 years. The accompanying figure does however show that the recent population change has however not been uniform over the District, with much of the overall decrease having occurred in Kawhia, with Otorohanga and most of the rural wards retaining population or even showing modest growth.

Normally Resident Population Change



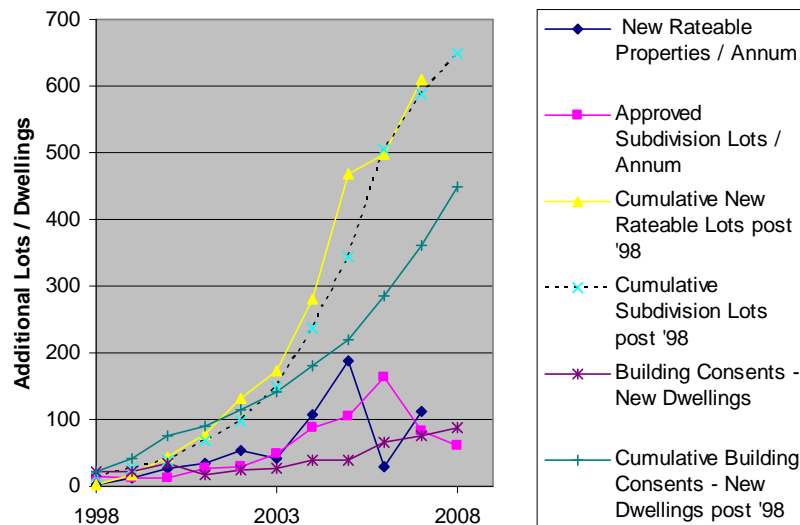
Significant property development has occurred within the District since 2003, as shown in the figure below.

This, together with other indications of potential population growth in some localised areas and projections of continuing population

¹ 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, so the normally resident population is used to more accurately reflect the District population.

growth in the Waikato region at a rate of 0.5-1.0% per annum, has raised expectations that the overall decline of population in the District over the last 10 years may be reversed. Evidence of this will however not be available till the 2011 census, and with the probability of several economically challenging years being ahead, it is considered unwise to assume positive population growth for the purpose of this LTCCP.

Development Indicators - Otorohanga District



For this reason planning has been based upon the 'medium growth' scenario for the District presented by the Ministry of Economic Development, which indicates a continuing decline of overall

population at -0.5% per year to 2018². However, based on existing data, the Council believes that the level of subdivision within the District will continue at the current rate, resulting in no major financial effects with regard to provision of services or funding of Council activities.

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 28% is of Maori descent, which is well above the national average of 16%. In recent years the overall proportion of Maori in the District has remained stable, with the only significant local change being in Kawhia, where the proportion has increased from 39% to 45% as the normally resident population of this community has decreased. The proportion of the population commonly speaking Maori has remained relatively constant at approximately 8% during the last 10 years.

The median age of permanent residents in the District is similar to the national average at 35 years, though the median age of the Kawhia ward is much higher, at 45 years, whilst median ages in the rural wards are lower.

² Note - Condition of Global Economy

In making this, and the other assumptions contained in this section, it is acknowledged that there are very substantial uncertainties related to the current global recession, and that a wide variety of other projections could be made.

The approach that has been generally adopted is to extrapolate existing trends (including pre-recession data) unless there is considered to be clear evidence that such trends are now manifestly incorrect. It is felt that to adopt any other approach could move predictions into a realm of severe negativity which might be alarmist and which could substantially undermine the LTCCP, with little certainty that the indicated problems would actually eventuate. Such an approach is viewed as counter productive and therefore has not been pursued.

The median age of residents in the District is rapidly increasing, in line with national trends linked to the 'baby boomer' generation, and is projected to rise to more than 39 years by 2019. Very large increases in the proportion of residents older than 65 years are expected to occur, with this element of the population forecast to grow at a rate of more than 3% per annum through the period of this plan.

This has potential to have a particularly significant effect on the urban communities, where there is already more than 17% 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 level of health deprivation in the District (as represented by the relevant Ministry of Health Index Data) already relatively high at 7.2, and exhibiting a slight worsening trend.

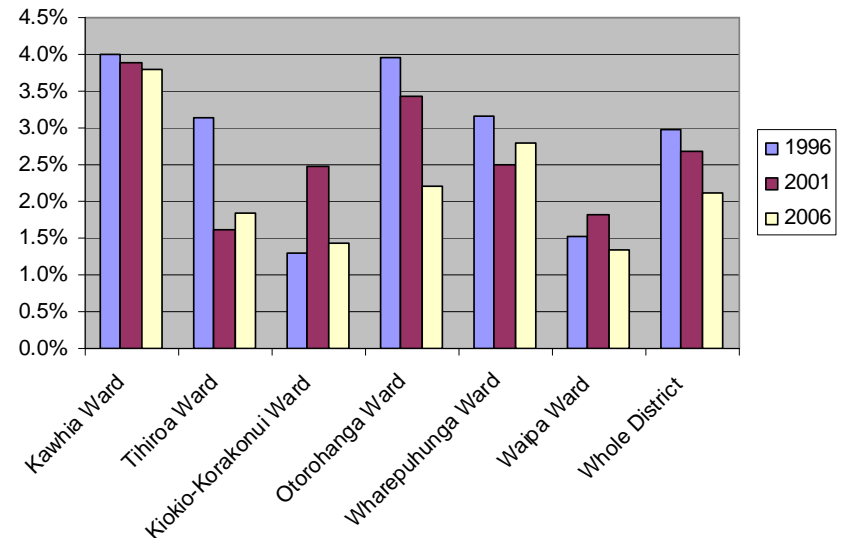
There is perhaps the potential for health service issues to become critical if there is a continuing decline in the overall population of the District that makes existing delivery modes unsustainable.

At the other end of the age demographic, the proportion of the population that is under 15 years old is 24.1%, 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 5.5 across all schools, the District exactly matches 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.

Unemployment Rate



Some notable successes have been achieved from the implemented initiatives, including zero registered youth employment in the District and a significant reduction in the youth crime rate. In general, there is 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 approximately 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.

The relatively high local crime resolution rate (typically above 54%) is again well above the national average of 48%.

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.

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 was \$61,200 in 2007, which was well above the national average of \$55,400 and 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 \$49,400 in 2006 was substantially below the national average of \$59,000. As such there is clearly a wide range of individual financial circumstance in the District, with the Kawhia community having a very low median household income of \$30,300, which is little more than half of that found in some rural wards.

In relation to housing the District is considered to generally be in a position of comparative strength, with 61% of residents having full or partial ownership of their own homes. For those in rented accommodation the situation is however perhaps less favourable, with residential rents having increased at an average rate of around 10% per year for the last 5 to 7 years, though this trend may cease as property values in the District are adjusted downwards.

Council is therefore 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 Council rates are likely to be unacceptable. This unacceptability will be heightened in the current difficult economic conditions that are considered likely to severely limit economic and wage growth in NZ until 2011. This has reinforced Council's belief that a 'no frills' approach to provision of services is appropriate for the period of this LTCCP.

Though household circumstances are quite variable, unemployment rates in the District have historically been relatively low, and in recent times have further reduced, as shown in the attached figure. This has in part been due to a range of innovative youth employment

initiatives driven by Council and associated agencies, that are considered to be at the "leading edge" of youth development at a national level.

The proportion of District ratepayers who are beneficiaries and otherwise on fixed incomes was 26% in 2007, which is well below both the national average of 30.6% and what is found in a sample of other comparable rural Districts.

Whilst it appears likely that in the short term there will be some increase in the levels of unemployment in the District, it is believed that the agricultural sector which forms the backbone of the local economy is fundamentally robust.

The agricultural sector continues to experience significant volatility in demand and prices for its products, and whilst the Ministry of Agriculture, Food and Fisheries makes regular projections of commodity prices and volumes over 4 year periods, the usefulness of these projections is considered very limited in the current climate of economic uncertainty. As such no attempt has been made to incorporate such data into development of this LTCCP.

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. 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 soundness of this industry will protect the District against sustained high levels of local unemployment.

Another aspect of concern in relation to employment is the prospect that existing difficulties in attracting professionals and other senior specialist workers to the District may worsen.

There has for some years been a situation where such people have been willing to work in the District, but are often reluctant to settle here, preferring to commute to work from other Districts to the north. In recent times the strong employment market in NZ has further amplified this problem, with it now proving difficult to fill some critical roles.

Whilst it would be expected that the current economic situation will loosen the general employment market, it does not necessarily follow that this will significantly relieve the existing problems of recruitment of senior people in the District.

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 extreme drought conditions of the 2007 summer, 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 LTCCP, 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 10 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.

That these challenges were successful (and resulted in significant additional legal costs to Council) has highlighted the need for an urgent review of Council's District Plan to provide a more legally robust framework for control of development within the District, and such a review is currently under way.

Whilst it is likely that the new District Plan will increase the restrictions on development, it is believed that the accompanying greater clarity will be of benefit to prospective developers, reducing the uncertainty that has existed in the past.

Council recognises the need to balance environmental protection against potential for growth, and believes that 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 expected that any significant further environmental responsibilities or constraints will be placed on Council by central or regional governments in the near future.

Provision of Council Services

Only very modest changes in the extent and level of Council activities are expected in response to similarly modest changes in population and economic activity during the period of the LTCCP.

The maintenance and improvements of roads is by far the most significant activity of Council in terms of cost, and this is unlikely to change. Whilst the population of the District is not projected to increase over the LTCCP period, it is likely that the previous trend of increasing volumes of traffic on roads will continue, as vehicle ownership in the District rises (having risen from 1.75 to 1.95 vehicles per household over the last 10 years) and owners use their vehicles more often.

It is however expected that in future the average rate of traffic growth on roads in the District may be lower than the 2 to 3% per annum

commonly seen in the past, with NZTA data suggesting that road traffic volumes in the region will increase at around 1% per annum over the period of this plan. Such modest traffic growth will not place extensive pressure on network capacity in the short or medium term, though localised exceptions may continue to exist. Council believes it's existing roading network has sufficient spare capacity to handle this increase in traffic volumes.

Council is required to hold Resource Consents for some of its activities, in particular for water supply, wastewater disposal and stormwater discharge, and these consents must be renewed from time to time if the activities are to continue. Such consent renewal is not expected to be problematic because the activities are of relatively limited and stable extent, and high levels of compliance with the existing consent conditions are generally achievable.








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 158. 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 198.

The Revenue and Financing policy has been updated since the 2006 LTCCP to give more clarity and understanding as to how Council funds its various activities and how that funding is applied to operational and capital expenditure.

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
-  Changes to subsidies received from the New Zealand Transport Agency
-  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.

Inflation

In preparing this LTCCP Council has used projected inflation adjustment factors as provided by Business and Economic Research Limited (BERL) in their report of March 2009. The figures below show the per annum escalation adjustments applied to particular cost groups relative to the year ending 30 June 2010 as the base year, hence zero inflation in that year. These figures exclude the projected effect of the implementation of the Emissions Trading Scheme (estimated by BERL to be a one-off increase of 1.1%).

Year Ending	Road	Property	Water	Energy	Staff	Other
June 2010	0.0	0.0	0.0	0.0	0.0	0.0
June 2011	2.6	2.8	2.3	2.6	2.4	3.4
June 2012	2.8	3.3	3.2	2.4	2.4	2.4
June 2013	2.4	2.6	3.0	2.8	2.7	2.4
June 2014	2.4	2.5	3.1	2.9	2.6	2.3
June 2015	2.4	3.0	3.3	3.3	2.6	2.4
June 2016	2.4	3.1	3.4	3.3	2.6	2.4
June 2017	2.5	2.5	3.3	3.4	3.1	2.4
June 2018	2.4	2.4	3.4	3.4	3.2	2.5
June 2019	2.2	2.3	3.5	3.5	3.1	2.5

Subsidies

Council has made the assumption that the subsidy received from the New Zealand Transport Agency (in most cases 53% for maintenance and capital expenditure, with some capital subsidies at 63%) 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 7% on borrowings, and 4.5% on cash surpluses. 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 7% 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 LTCCP 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 2008. Revaluations during the span of the LTCCP will be conducted for years commencing 1 July 2011, 1 July 2014 and 1 July 2017. To determine the likely impact of these valuation changes, Council has used the BERL adjustors for inflation as an indicator of likely valuation changes.

The valuation increases used have been:

	1 July 2011	1 July 2014	1 July 2017
Piped Assets	9.6%	11.7%	9.0%
Roading Network	9.5%	8.4%	9.3%
Land	9.0%	9.6%	10.0%
Buildings	9.0%	9.6%	10.0%

Waikato Regional Airport Limited

As noted on page 158, Council has taken the view that it is likely that a portion of the uncalled capital in Waikato Regional Airport Limited will be called upon by the company. An amount of \$12 million of the total uncalled capital of \$21 million has been called by the company. Otorohanga District Council's portion of this amount is \$375,000. This has been represented in the 2009/10 year. Council has assumed that it is unlikely that any further call for uncalled capital will occur over the 10 year period.

Summary of Significant Assumptions

Forecasting Assumption	Associated Risks	Level of Uncertainty	Reasons & Financial Effect of Uncertainty
Growth of - 0.5% per annum	Determines extent of rating base, influences required infrastructural asset capacity, influences sustainability of Council and non-Council services	Low; strong Council emphasis on growth but probable results constrained in short/medium term, strong agricultural base limits potential downside.	Existing population trends only weak, variance of this trend likely to be small, limited financial effect
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
Short term increases in unemployment	Influences on ratepayer ability to pay	Low	Unlikely that District will not feel effects of global economic downturn
Population under 15 years of age stays consistent	Declining proportion would threaten viability of schools, weaken future	Low	Demographic trend well established. Little direct financial effect.

Forecasting Assumption	Associated Risks	Level of Uncertainty	Reasons & Financial Effect of Uncertainty
	labour pool		
1% increase per annum in traffic volumes on roads	Higher rates increase for road maintenance and improvement requirements	Moderate; NZTA projection data used but relevance to local roads questionable	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 dependant 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	Forecasting Assumption	Associated Risks	Level of Uncertainty	Reasons & Financial Effect of Uncertainty
No significant new environmental issues or Resource Management needs	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	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). Govt stimulus spending could raise inflation for infrastructure.
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.	Subsidies from NZTA will remain constant for the full period of the LTCCP	Moderate. Even minor reduction of subsidy has major effect on rates affordability.	Low; no current suggestion of change by govt.	Potential of govt stimulus spend through larger NZTA subsidy unlikely as not consistent with other govt policy directions.
Emissions Trading Scheme (ETS), if adopted, would increase rates by 1%.	Implementation of ETS would contribute to broad cost inflation, increasing rates	High; ETS implementation uncertain given government change and has therefore not been included.	Cumulative rates variance of circa 1% associated with ETS / non-ETS BERL inflation indicators	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 only predictable (1 in 100 year) risk.

Forecasting Assumption	Associated Risks	Level of Uncertainty	Reasons & Financial Effect of Uncertainty	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 7.0% on borrowings and 4.5% on deposits	Large increases in interest rates could result in significant changes to the interest expense.	High; given the current economic climate.	An increase of 0.5% would add \$61,000 to the interest expense in 2009/10, reducing to \$34,000 in 2018/19.	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
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	Extent, complexity and cost of LTCCP 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.