

FACING THE FACTS

Consultation Document

Long Term Plan 2021-2031

Together we Thrive!

E ora ngātahi ana!



**CENTRAL
HAWKE'S BAY**
DISTRICT COUNCIL



Together we Thrive!

E ora ngātahi ana!

Proud District

Prosperous District

Connected Citizens

Strong Communities

Smart Growth

Environmentally Responsible

Durable Infrastructure

We're planning ahead, to ensure the next 10 years deliver on your vision for a thriving Central Hawke's Bay.

The plans we make today, will impact the aspirations and realities of our children and grandchildren for decades to come. In planning for our future, we've uncovered some huge challenges that we must face together now, before we can move forward, and deliver a thriving Central Hawke's Bay. We need your views on the development of our Long Term Plan 2021-2031.

This consultation document provides a summary of our financial strategy, key challenges and proposed solutions for you to consider and feedback on. Your feedback will be used to develop the Long Term Plan 2021-2031, which will come into operation from July 2021.

Since June last year, your elected members have hosted a series of community conversations across the District, with community groups and key stakeholders. The challenges we want your feedback on, reflect the themes that arose through those early conversations. We know the road ahead is challenging, but as we face these facts and respond to the challenges together, we will create and secure a thriving Central Hawke's Bay for our future generations.

Introducing our next generation

The decisions we make today will impact our future generations for years to come.



Ben is 15 years old and goes to Central Hawke's Bay College. He's fully into his music and drama and is an avid chess player. He plays the drums and the piano and can blast a few notes on the sax. Ben wants to be an actor or a musician when he grows up.

Hannah is 11 years old and is on the soccer team at St Joseph's School. She's not sure what she wants to be when she grows up yet, but she loves hanging out and playing games with her friends, visiting the beach and riding her scooter to school.

Bindy is 13 years old and starts her first year of college this year. Her favourite holiday spot in CHB is Pōrangahau Beach where her family stays every summer. Bindy loves to read, play basketball and hang out with her family in her spare time.

Tom is 11 years old and goes to Omake School. He plays basketball and was in the CHB soccer reps for two years. He spends a lot of his spare time with his two dogs George and Daxter, enjoys fishing with his dad and playing video games with friends.

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A message from Mayor Alex and your Council Team

Kia ora. Every three years you, the community of Central Hawke's Bay, are asked to tell your elected councillors what you would like your rates to deliver for you over the coming decade.

As we started working alongside officers to develop Central Hawke's Bay's Long Term Plan for 2021-2031, it became clear that this planning round would be different. We uncovered some huge challenges and some facts that we need to face together as a community, so we can deliver a thriving future for our children.

In this Long Term Plan 2021-2031 Consultation Document we are presenting to you the open and transparent view of our reality, and the proposed options to address the challenges we face.

We now know more than we have ever known about the state of our assets. The truth is quite frankly, frightening.

For more than two decades, our essential infrastructure has gone without the necessary funding and investment to ensure it is properly maintained. Historic political approaches of choosing not to fund renewals and upgrades in order to keep rates artificially low, alongside poor investment decisions, has delivered an unfortunate reality for our communities of today.

Through our #bigwaterstory we identified some of the challenges that we are facing today. Many of our assets are at the end of their lives, while central government

legislative standards continue to change and increase. We are now left with failing 100-year-old pipelines, failed wastewater treatment plants despite major community investment, and earthquake prone buildings despite the expectation they had been strengthened. Our reality is that we now require major investment in nearly every aspect of Council's services.

As a community, facing these facts, we have no choice but to respond and correct this underinvestment, to secure our future. These are our assets and services, and together we must invest in them to ensure they sustain us for generations to come.

This Long Term Plan proposes both increases to our debt limits and significant rates increases – not just in the first year of the plan, but through the life of the Long Term Plan Budget 2021-2031.

We acknowledge that increasing rates is a difficult conversation at any time. This Long Term Plan budget isn't about 'cutting our cloth to fit', or 'learning to live within our means'. In building this budget we have trimmed every edge of our cloth and now face a reality where living within our means still requires significant investment to address years of underinvestment and poor investment decisions.

Even if we closed every park and library in Central Hawke's Bay, cancelled economic and social development activities and stopped supporting facilities like the Centralines Indoor Pool, the Central Hawke's Bay Museum and the Tukituki Trails, these savings alone would still not be enough to offset the major investment required to fund our three waters infrastructure programme.

Throughout this consultation we invite you to see for yourself the realities of the challenges we face. We will open our doors to our wastewater treatment plants, landfill, solid waste operations and other activities, for you to see, hear and touch, first hand, the infrastructure we are left with today. We encourage you to come along to one of our consultation events or open days to learn more, so you can make an informed submission.

Alex Walker

Mayor of Tamatea/Central Hawke's Bay



Our reality

We now know more than we have ever known about the state of our infrastructure and services.

For decades, the Council has historically held rates at an artificially low rate, instead of funding depreciation or putting aside reserve funds for the renewal of our core infrastructure assets.

We now require major investment in nearly every aspect of our infrastructure and services.

Avoiding rate increases, austerity measures and poor investment decisions in the past, means we also face significant challenges in funding these major renewals and upgrades.

A major step change is required to respond to the level of renewals and upgrade work we need to complete.

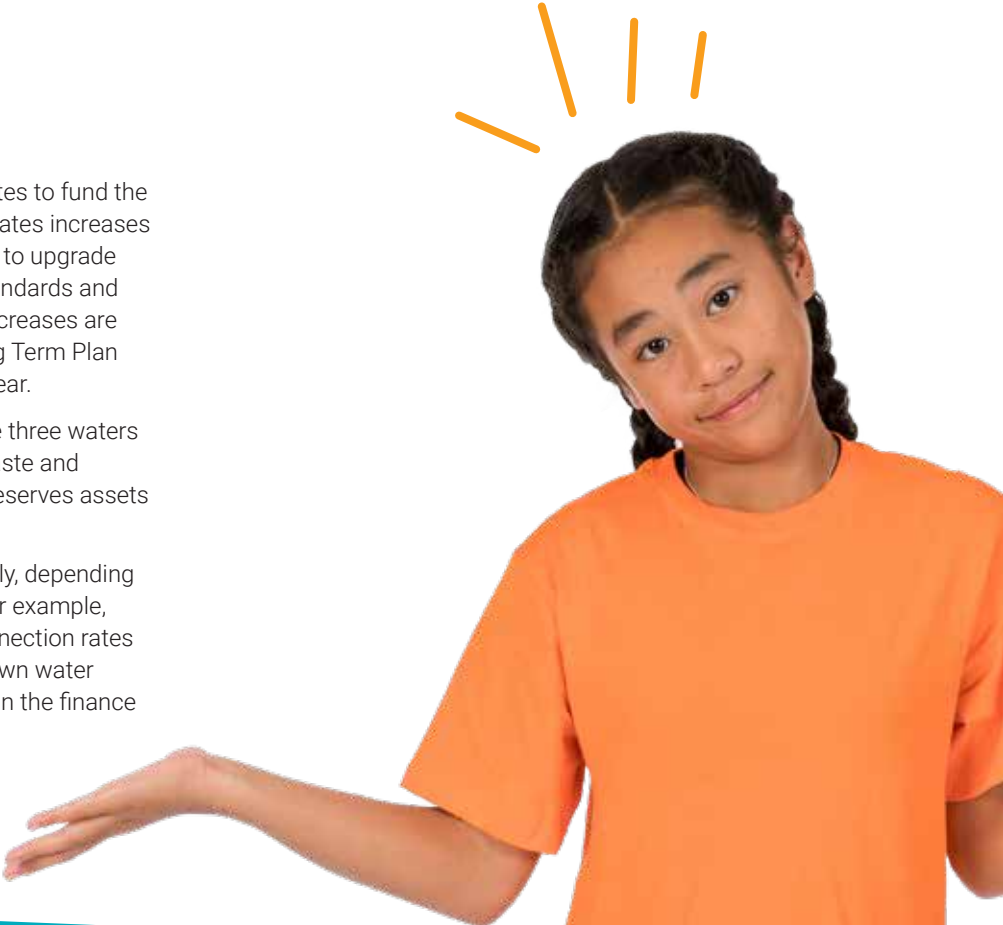
As we begin to face the facts of where we are today, and see our reality for what it is, we want to know how you would like us to respond to the key challenges that we will face over the coming decade.

What does this all mean for me?

It means we will all need to pay more rates to fund the catch-up. We are proposing significant rates increases to meet the level of investment required to upgrade our infrastructure to meet legislative standards and our proposed levels of service. These increases are proposed throughout the life of the Long Term Plan Budget 2021-2031, not just in the first year.

These increases will fund the basics like three waters infrastructure and services (drinking, waste and stormwater), upgrading our parks and reserves assets and other core infrastructure.

Increases will affect properties differently, depending on the services they're connected to. For example, a rural property won't pay the water connection rates charges that a property connected to town water supply would. A breakdown is provided in the finance section of this document.



Rates Reality

The reality of our previous investment decisions means some dramatic increases for the future

Year	Long Term Plan 2021 - 2031																
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Actual rates increase	1.7%	1.6%	1.7%	3.3%	3.6%	4.9%	3.2%	7.8%	7.8%	5.8%	7.4%	12.8%	13.1%	5.0%	2.0%	10.3%	9.0%



What's it all about?

The Long Term Plan (LTP) sets out what the Council's activities, costs, and required revenue and rates are, for the next ten years. We are currently developing our LTP 2021-2031.

Our last LTP review took place in 2018. We knew we had some major challenges ahead and indicated this to you in activities like #thebigwaterstory, which began to address our three waters infrastructure. We now know more than we have ever known about the state of our assets and have a responsibility to ensure that we present you with all of the facts, and their reality for us.

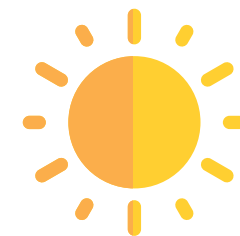
The process

The process for developing our LTP is outlined on the next page. Currently, we are in the stage of 'Formal Consultation', where we are seeking your input into our proposed LTP.

In July last year, we ran a 'pre-engagement' phase of consultation to ensure we were clear about your priorities before we developed our draft LTP.

What are we consulting on?

This LTP Consultation Document outlines the four key challenges we face for our future over the next decade and beyond. As a community we cannot move forward without addressing these big challenges and specifically need your feedback on them. You can make a submission on any aspect of this plan or on any of our supporting information to the Consultation Document, including the infrastructure and financial strategies, financial statements, policies, and activity statements.



How can I have my say?

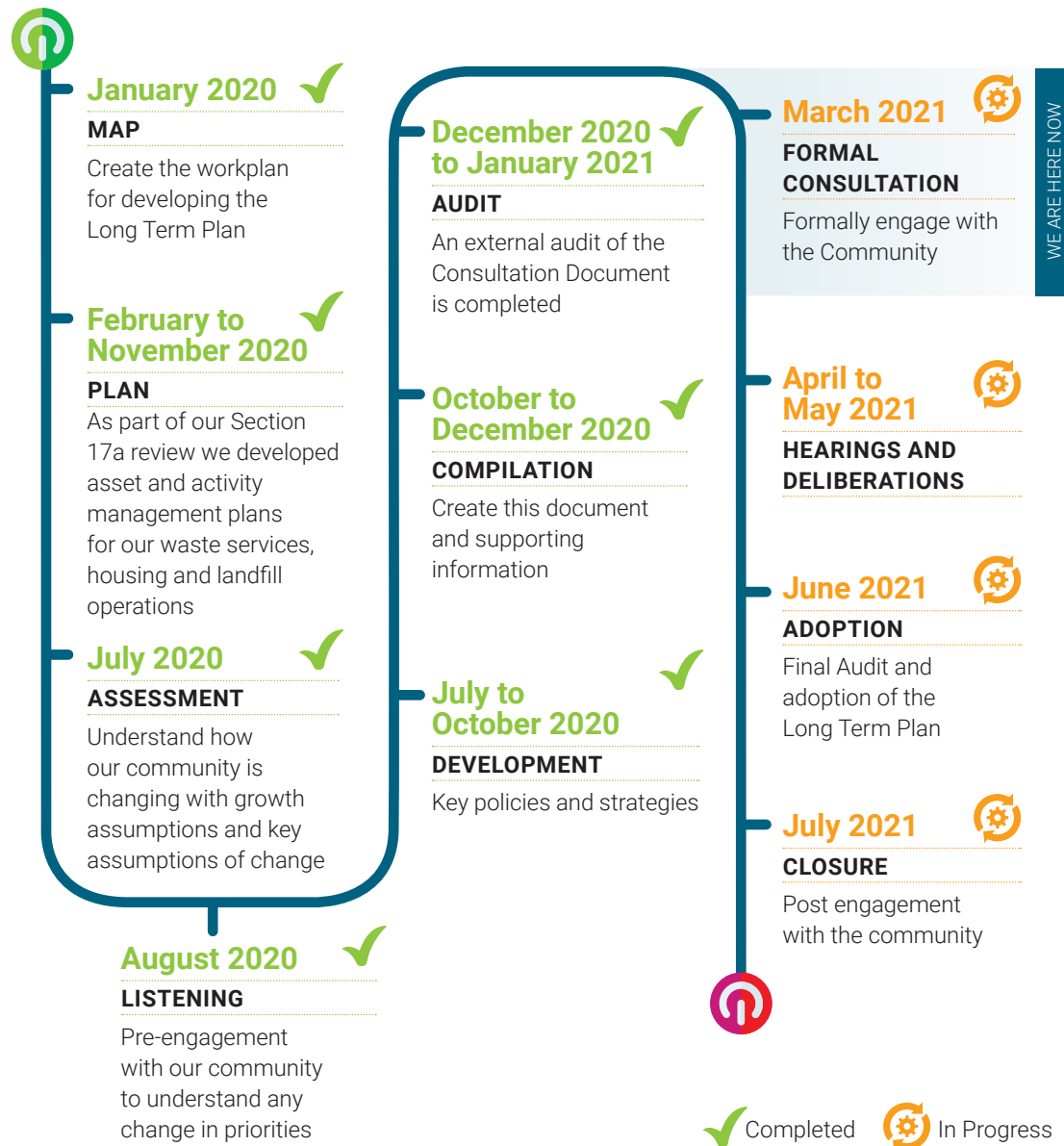
We want to help you understand more about what your rates pay for, the challenges we face today and how you can input into the Long Term Planning process, which is what this consultation is all about.

Throughout the consultation period we will provide multiple opportunities for you to find out more and make a submission. Read through this brochure, head to page 45 to understand how to give us feedback or visit www.chbdc.govt.nz to find out more information and to make a submission.

**Consultation is open
1 March and closes
on 31 March 2021.**



Long Term Plan Development Process



Impacts of Covid-19

We've thought carefully about the impact of the Covid-19 pandemic on our small District. Covid-19 threatens to push the world economy into recession, however Central Hawke's Bay is in a good place to weather the storm compared with other Districts. The primary activity and employer in the District is primary industry. The worldwide demand for food hasn't changed. Likewise, Central Hawke's Bay isn't reliant on international tourism, nor do we have large swimming pools or other recreational complexes to continue funding in the event further lockdowns occurred, so we are less impacted than our neighbouring Councils. That's not to say Central Hawke's Bay will get away unscathed, but it should face less impacts than other Districts longterm.

We've considered the impact of Covid-19 in our key assumptions, that you can find on page 232 of our supporting documents to this Consultation Document.

Three Waters Reform

Hawke's Bay Councils were already working together on opportunities to improve our three waters infrastructure, ahead of Central Government Reform announced in 2020. We have signed a Memorandum of Understanding (MoU) with Central Government to explore future service delivery options and have secured \$11.09 million in funding. The Government expects to make substantive decisions in April/May 2021. It is expected that Councils will be asked to consult with their communities in late 2021 whether they should join one of the new water service delivery entities. We intend to consult on this decision, once Central Government has made their decision in April/May and more facts are available, separately to the consultation on this Long Term Plan. For councils that participate in the reforms, transfer of responsibilities, assets, etc. is likely to occur from 2023/24 onwards.

Our community needs three waters services regardless of what happens. As such, we have included three waters in our financial and infrastructure strategies, and as a key challenge within our LTP. This has been considered as a potential change in our key assumptions, on page 232 of our supporting information. **For more information on the Government reforms visit www.dia.govt.nz/three-waters-reform-programme**

Jerry Greer
Aramoana/Ruahine Ward
027 488 4786
jerry.greer@chbdc.govt.nz

Brent Muggeridge
Aramoana/Ruahine Ward
021 332 353
brent.muggeridge@chbdc.govt.nz

Gerard Minehan
Ruataniwha Ward
027 479 3773
gerard.minehan@chbdc.govt.nz

Tim Aitken
Aramoana/Ruahine Ward
027 472 4587
tim.aitken@chbdc.govt.nz

Exham Wichman
Ruataniwha Ward
027 4656184
exham.wichman@chbdc.govt.nz

Monique Davidson
Chief Executive
monique.davidson@chbdc.govt.nz

Kate Taylor
Aramoana/Ruahine Ward
027 603 2200
kate.taylor@chbdc.govt.nz

Kelly Annand
Deputy Mayor
Ruataniwha Ward
027 479 4000
kelly.annand@chbdc.govt.nz

Pip Burne
Ruataniwha Ward
021 0257 4496
pip.burne@chbdc.govt.nz

Alex Walker
Mayor
027 860 7752
alex.walker@chbdc.govt.nz

Our challenges

What's driving our big challenges?



Underinvestment in ageing infrastructure

Many of our assets are at the end of their life, for example our three waters, parks and facilities, meaning we require major investment in nearly every aspect of our infrastructure and services.

Ever increasing Central Government standards

The quality and requirements of our current water and wastewater treatment plants and data recording must be higher than our current offer. New standards such as the Fresh Water National Policy Statement, require a radical change to how we treat and manage stormwater, bringing a significant cost.



Rates held at artificially low levels for decades

For decades, the council has historically held rates at an artificially low rate, instead of funding depreciation or putting aside reserve funds for the renewal of our core infrastructure assets.

It's not about making savings

Even if we closed every park and library in Central Hawke's Bay, cancelled economic and social development activities and stopped supporting facilities like the Centralines Indoor Pool, the Central Hawke's Bay Museum and the Tukituki Trails, these savings alone would still not be enough to offset the major investment required to fund our three waters infrastructure programme.



Managing our Rubbish and Recycling

Our community have a strong desire to see change in the current rubbish and recycling services they receive. Increasing environmental standards and changes in international recycling markets are also making the costs associated with recycling highly unpredictable.

Huge growth

We are growing at unprecedented levels, some 1,500 new homes are forecast for the district over the next ten years.



Failed wastewater plants

Historical poor investment decisions in our Waipawa and Waipukurau plants has seen over \$10 million of failed improvements to the treatment of wastewater.



Earthquake prone buildings

Despite significant investment to seismically strengthen the Waipukurau Memorial Hall and Waipukurau Library, both have been confirmed as earthquake prone. We and the community have many other buildings and assets that also require upgrading and we need to respond in a strategic way.



Our District Plan is nearly 20 years old

The plan that sets rules for things like subdivision and activities is nearly 20 years old, but was meant to be reviewed every ten years. The scope and scale of the review is having a major impact on our general rate.



Central Hawke's Bay elected members share their aspirations & concerns for the future



Ensuring that people in our community have adequate housing and we are planning for future needs, continues to be a passion for me. With Central Hawke's Bay experiencing huge growth, we need to ensure we have a global view in the housing space and across our wider community projects. Everything from, district plan, town centre development, spatial planning to infrastructure for the future, need to be considered as we work hard to tie all these links together for the next 10 years. I will continue to push our government partners, so we can finally get a result to meet the housing needs of our most vulnerable.

Kelly Annand

Deputy Mayor
Councillor Ruataniwha Ward



I'm proud of what's been done to update our asset management plans that drive all work programmes for our core infrastructure. The more we know the better we can do. One of the things that we are going to have to watch out for is the government reform proposal that could change how water, wastewater and stormwater services are delivered. Councils like ours are just too small to afford all the upgrades to water and wastewater pipes we need. We'll need to look at these government proposals very seriously.

Brent Muggeridge

Chair of Finance and Infrastructure
Committee Councillor Aramoana
/Ruahine Ward



Water is gold. Everyone in Central Hawke's Bay knows that. You might be surprised to know that when Council has to put water restrictions in place, it's often because our pumps and treatment stations can't keep up with the rate of water being used. As well as getting on top of the renewal or replacement of our very old water pipes we will need new strategies to manage the impacts we all have on water usage.

Tim Aitken

Lead Councillor Aramoana
/Ruahine Ward



I'm proud of our plan of attack for wastewater renewals. We are finally getting on with addressing the historic issues and challenges that we face as a District when it comes to managing our wastewater. As someone said to me "make it happen".

We simply have to get it right. That's what we are doing, but it's sad there is much to do on core infrastructure that some of our local treasures, like beach reserves we all love fall down the priority list.

Jerry Greer

Councillor Aramoana/Ruahine Ward



CHB is growing so fast, I am worried about the detrimental effect this may have on us already living here and paying for infrastructure and services. I'm pleased to see proposals showing exactly how developers and new subdivisions could contribute and pay for this growth instead of the costs falling on our community.

Exham Wickman

Councillor Ruataniwha Ward



With the Waipukurau Library being closed at the moment, Te Taiwhenua o Tamatea – a direct neighbour across the street – is doing as much as they can to help council provide services to our community. Council needs to use some careful thinking to plan next steps for the library and other community facilities. Investment will need to be based on more innovative, collaborative and long-term thinking. There is a great opportunity for more of a community hub facility where other community groups and agencies can come together – a place for our future.

Professor Roger Maaka

Kaiārahi Matua



Our future has never been predetermined – it has been built on the hardwork and sacrifices of previous generations. It is our turn to lead the way for our future generations, and our children's children. Our vision and commitment to a Waste Free CHB and our efforts to recycle more and reduce the amount of waste we send to landfill will have huge benefits for our future generations. We want your views on our plans to inspire hope and achieve a better future for our current and future generations.

Gerard Minehan

Councillor Ruataniwha Ward



Roading networks are a lifeline for our rural communities and farming businesses – and often the largest part of their rates. In this LTP there is little change to the levels of service we can provide, and sadly Waka Kotahi NZTA will reduce our Funding Assistance Rate in 2023. But there is still scope to focus on road safety and access for our children, elderly, main streets and cycling.

Kate Taylor

Councillor Aramoana/Ruahine Ward



Councils develop LTPs based on their best understanding at the time; the level of detail and the amount of work that needs doing is massive. One thing people are fiercely proud of in our district is the way we look after parks, reserves and gardens. They are vital first impressions for visitors and give us fantastic places to play and socialise!

Pip Burne

Councillor Ruataniwha Ward

We're facing four big challenges which we need your feedback on!



CHALLENGE
#1

Planning our Wastewater Upgrades

All our wastewater treatment plants require major upgrades and renewals. We have limited options about whether to do the work or not, but removing wastewater discharges from waterways is an absolute for us. We're proposing to take a middle-ground approach to how fast we deliver the upgrades over 15 years.

We need to know if you support our preferred option to upgrade plants and remove discharges to rivers over 15 years, or if we should speed up or slow down investment.

You told us we should prioritise investment in our three waters.

In our LTP pre-engagement phase last August, you told us that investing in three waters infrastructure (drinking water, stormwater and waste water) should be our top priority. We have responded in this LTP by prioritising investment principally in this area, and proposing a step change in what we pay in rates to achieve this.

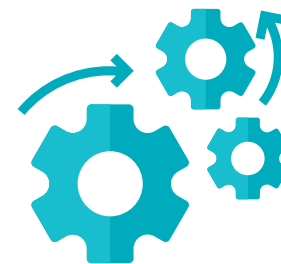
CHALLENGE
#2

How we fund the replacement of our assets

Historic underinvestment in our essential infrastructure means many of our assets are at the end of their life. This means we now face major investment in nearly every aspect of our infrastructure and services.

We're proposing a step change in the delivery of our renewals and upgrades. By changing how we fund renewals in the shorter term (first five years) from rates to debt, we will ensure assets are replaced before they reach the end of their useful life.

Do you agree with our approach to funding our renewals through debt in the short term? What alternatives do you think we have?





CHALLENGE
#3

Creating a Waste Free CHB

Our community has a vision for a Waste Free CHB, making landfill our last choice, and increasing uptake in kerbside recycling.

We're proposing changes to our recycling and rubbish services, but we want your views on some important trade-offs.

We've got some ideas and want to hear from you on the range of options available.



CHALLENGE
#4

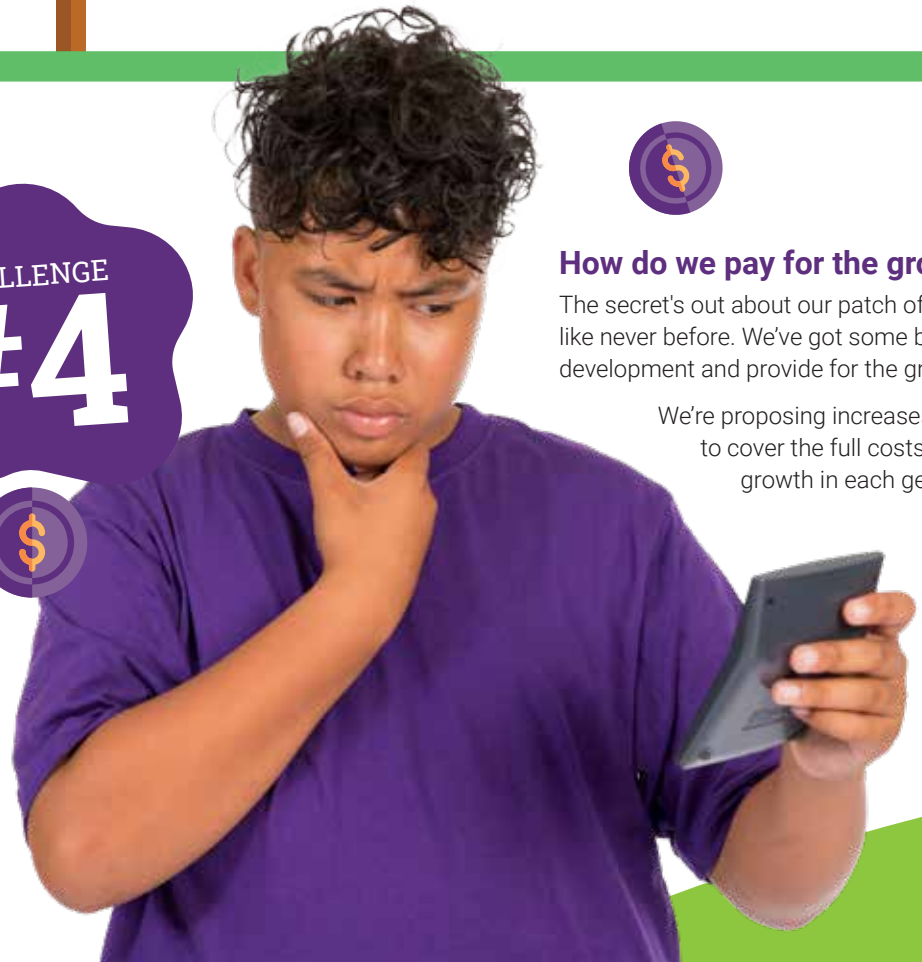


How do we pay for the growth we are experiencing?

The secret's out about our patch of paradise and we are growing like never before. We've got some big costs ahead to service new development and provide for the growth ahead.

We're proposing increases in development contributions to cover the full costs that can be attributed to growth in each geographic location, rather than ratepayers footing a majority of the cost.

We are specifically seeking feedback on whether you support increased development contributions or not.





Planning our Wastewater Upgrades

Planning our wastewater upgrades is one of our most significant challenges as a community.

We have a smaller population than neighbours like Hastings and Napier and our settlements are widespread. So, unlike Napier, whose residents chip in to pay for one wastewater treatment plant, in Central Hawke's Bay we chip in to pay for six! It comes at a significant cost to us all. Our situation is made even more difficult, following poor investment decisions from the past, where more than \$10 million of improvements have been made to our failed wastewater plants.

There are things we cannot influence or control, in particular Environment Court orders following the failure of our wastewater plant upgrades, that resulted in breaches of our resource consent conditions.

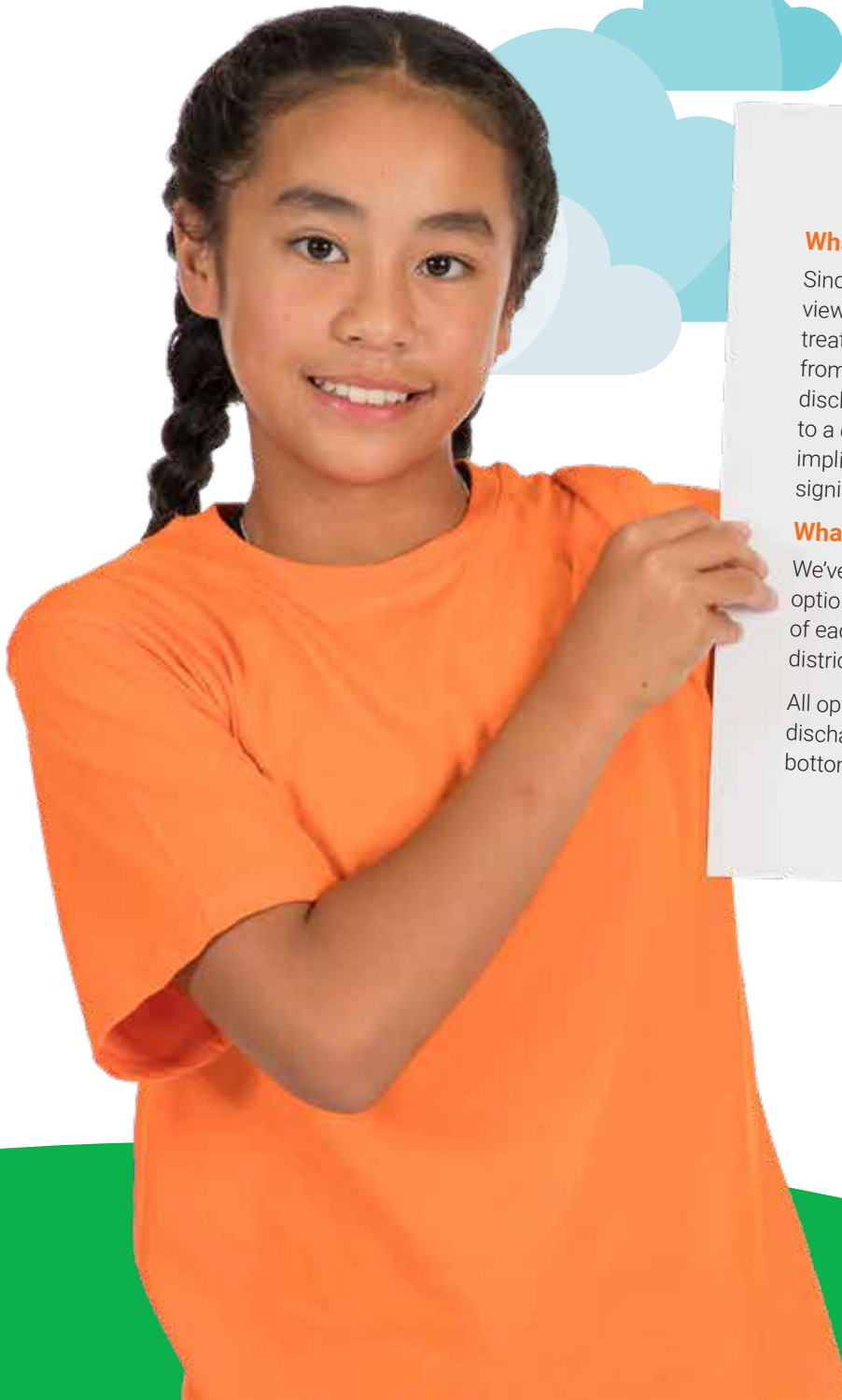
Our Wastewater Strategy

In September 2020, we adopted the 'Wastewater Treatment and Discharge Management Strategy' – a long term plan for how we manage wastewater. It proposes an intergenerational approach to combine the treatment of Otāne, Waipawa and Waipukurau; treat Pōrangahau and Te Paerahi together; and Takapau solely, given its location.

OUR VISION:

Wastewater treated in a sustainable way that creates a resource, protects our environment, and continues to do so for generations to come.





What we've already consulted on

Since 2018, we've asked for your views on a range of wastewater treatment options available to us – from completely removing wastewater discharges to water by irrigating to land, to a combination of both. The cost implications for both options brings significant challenges.

What we're consulting on now

We've taken your feedback to identify options that best reflect the aspirations of each community, while addressing district wide ambitions and challenges.

All options include removing wastewater discharges from waterways as a bottom-line.

While you can make a submission on any aspect of wastewater, we specifically want to hear which option, along with funding implications, you prefer (see over page).

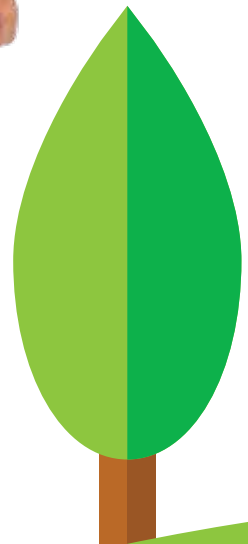
You are also welcome to make comment on the range of projects that make up our preferred option.

Waipukurau and Otāne wastewater to Waipawa

In our pre-engagement phase last year, we considered options to either continue treating Waipukurau and Otāne's wastewater separately or pipe it to Waipawa for treatment and land based discharge. Following feedback and analysis, our focus is now on developing a 'one treatment plant solution' based in Waipawa.

Want to know more?

You can find out more about the options we have considered and our wastewater journey to date by heading to our website and searching #bigwastewaterstory



CHALLENGE

#1

Planning our Wastewater Upgrades

Our options



OPTION 1

A 15-year plan to upgrade our wastewater plants and remove wastewater discharges from waterways

We upgrade our wastewater plants across the six settlements of Central Hawke's Bay within 15 years – removing wastewater discharges from our waterways. This includes the development of an integrated treatment and discharge wastewater system for the townships of Otāne, Waipawa and Waipukurau, that will see our wastewater irrigated to land at a single site. A new combined wastewater treatment plant will be built for Pōrangahau and Te Paerahi, and wastewater discharged to land at a new discharge site. Takapau will have minor treatment improvements, with wastewater discharged to land.

The scope of these works is significant – totalling some \$68.2 million of capital expenditure over the next 10 years.

Completing this work will allow us to meet our existing Levels of Service that we have been unable to achieve, based on our current asset provision.

This option will incur additional debt servicing of \$17.5 million and \$10.8 million of depreciation over the next 10 years. The Long Term Plan assumes that the Trade Waste Producers and Developers will fund a \$6.5 million capital contribution. \$26.8 million will be funded by the ratepayer. This equates to an average rate increase for each connected property of \$642 per annum to fully fund this option.

The 15-year plan is our preferred option, because it spreads the financial burden of delivering these significant works over a longer period of time, however still achieves our ambition of removing wastewater discharges from our waterways. In doing so, it lowers upfront what is already a large financial impact on the community overall.

What about if the cost to borrow increases?

This options relies heavily on borrowing. We've assumed a 2.5% borrowing rate over the life of the Long Term Plan. We have made this assumption based on the Council's current ability to borrow long term at 2.12% per annum. There is a risk that borrowing rates could rise before the required funds are drawn, meaning the costs of borrowing could be higher than we have forecast.

See our Key Assumptions on page 232 of our supporting information pack that outlines our assumption on borrowing interest rates and other key assumptions.



OPTION 2

A 10-year plan to upgrade our Wastewater Plants and remove wastewater discharges from waterways

This option accelerates the delivery of option 1 (our preferred option) for completion within 10 years, instead of 15 years.

The benefit of this option is that we remove wastewater discharges from our waterways within 10 years, addressing the cultural and environmental impacts our discharges create sooner.

Completing this work will also allow us to meet our existing Levels of Service that we have been unable to achieve, based on our current asset provision – just in a much quicker timeframe. The capital works to be undertaken in the next years under this option is \$74.2 million.

This option will incur additional debt servicing of \$21.4 million and \$13.6 million of depreciation over the next 10 years. The Long Term Plan assumes that the Trade Waste Producers and Developers will fund a \$6.9 million capital contribution. \$33.3 million will be funded by the ratepayer. This equates to an average rate increase for each connected property of \$797 per annum to fully fund this option.

This option is not our preferred option because of the additional financial hardship it places on the community, with the costs impacting over a much smaller timeframe.

OPTION 3

Doing the minimum to meet current legal compliance, and remove wastewater discharges from waterways

This option sees us walk away from our Wastewater Strategy 2020. This option will still deliver the same pipelines and work towards discharging wastewater to land, as the previous options deliver. Where this option differs is that no new treatment plants will be constructed, and only minor improvements to existing plants will be undertaken. The capital cost of this option \$41.1 million over the next six years.

This option would provide for us to achieve our levels of service in the short term (5 - 10 years), however as legislative standards continue to increase it is unlikely this option will support the achievement of levels of service in the long term.

This option will incur additional debt servicing of \$14.0 million and \$9.2 million of depreciation over the next 10 years. The Long Term Plan assumes that the Trade Waste Producers and Developers will fund a \$5.3 million capital contribution. \$22.0 million will be funded by the ratepayer. This equates to an average rate increase for each connected property of \$527 per annum to fully fund this option.

This option is not our preferred option. While it has the lowest cost, it also comes with significant risk. While it will remove our direct discharges to our waterways, this option does not include additional work that will treat our wastewater to a higher standard as proposed in option 1 and 2.

This option would likely see us requiring to further invest in wastewater treatment plants in the next 10 years, in the event that only a short resource consent was granted or new legislative requirements for water quality were enforced. This option also does not allow for the projected population growth we expected to see across the district.

This option represents the early phases of projects in Options 1 and 2 and treatment improvement projects would cease once discharges are moved to land.

Have your say!

Should Industry pay more for the wastewater they generate?

Trade Waste Bylaw Review

We are proposing to change the Trade Waste Bylaw to support the fees and charges schedule that commercial and industrial creators of wastewater currently pay.

This means increasing the amount they pay both operationally for wastewater they discharge into our networks along with a capital contribution towards upgrading our plants and networks to manage their wastewater.

Our three biggest tradewaste contributors add the equivalent load on our wastewater treatment plants each year in excess of 2,000 households.

Do you think we should be making the industry, that creates the large volumes of wastewater, pay more?

Would you be happy to pay more rates to keep industry and business in Central Hawke's Bay if we didn't increase the cost of industry discharging to our wastewater network?

Your feedback will help us shape our decision making. See page 43 of this Consultation Document on our 'other consultations', to make a submission.



How we fund the replacement of our assets

As a District we are plagued with the consequences of underinvestment and poor investment decisions in our infrastructure – from pipelines to playgrounds.

Historically, the Council has purposely under invested in renewals, as a means to artificially keep rates low. It has chosen to fund renewals through rates alone, meaning the renewal work was often deferred or cancelled due to the potential rate increases required to pay for them.

Some Councils choose to replace their assets by using an asset replacement fund, whereby they put aside rate money over time to fund the replacement of the asset. Our Council has no replacement funds available to use.

Our Council has chosen to fund replacements in the year they are required through rates, meaning there is often large fluctuations in costs and rates year to year, depending on what is to be replaced in that year.

Across our networks and assets we spend thousands each year repairing leaks or critical failures of pipes that are, in some instances, over 100 years old. We currently have \$18 million of reticulation pipework alone, that has reached the end of its useful life – meaning it is well overdue for replacement. This includes our reservoirs in Waipawa and Waipukurau which are over 100 years old.

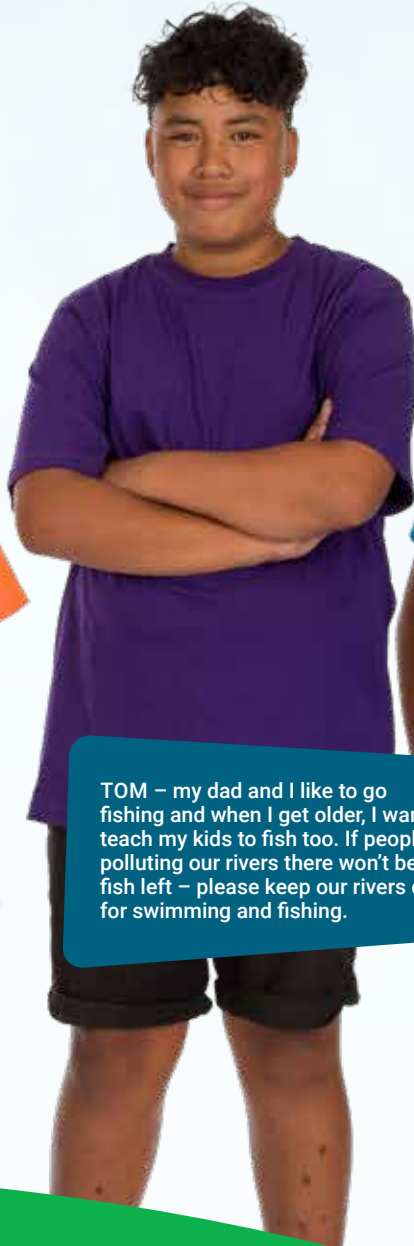
The consequences of past approaches have now caught up with us and we have no choice but to respond to the situation we find ourselves in. We're proposing a significant step change in the funding of our core infrastructure to address the challenges ahead of us, along with a changed approach to the way we fund it.



BEN – I want people to respect our environment, take their rubbish with them and recycle more. It's important to leave our parks, beaches and campsites clean and as we find them.



HANNAH – I ride my scooter to school so having safe pathways and roads for getting around the district, means my friends and I can get to school safely.



TOM – my dad and I like to go fishing and when I get older, I want to teach my kids to fish too. If people keep polluting our rivers there won't be any fish left – please keep our rivers clean for swimming and fishing.



BINDY – I play basketball, and even as our population grows, we still need to make sure we have enough parks and sports facilities for a larger community.



CHALLENGE

#2

Funding replacement of our assets



Our options

OPTION 1

Debt funding in the short term to deliver essential renewals and upgrades

This option involves making a significant step change in funding renewals and upgrades to our assets through increased debt over the short term (next five years). Our proposed approach is to debt fund our renewals through to Year 5 of the LTP, and then begin to fund our renewals through rates again. This initial debt funding will provide a means for our community to 'catch-up' on outstanding renewals and then provides for ongoing rate funded renewals that will meet the required legislative benchmarks set for renewals.

For our pipe networks this means replacing old pipes before they get to the end of their useful life and catching up on the replacement of pipes that are already past the end of their useful life. For our other assets such as playgrounds and aspects of property, it means that we have begun funding replacements for assets that are identified for renewal.

In our financial strategy summary on page 30 you can see how a scaled back but significant step change, already significantly increases our debt and rating requirement. Our shift back to rate funded renewals will result in large rate increases in Year 5 and Year 6 of the Long Term Plan, however we will then be funding required asset replacements, that ensure our average age of assets does not increase. Even this step change however, will not in itself bring Council back to achieve

a "Balanced Budget Prudential Benchmark". By years 9 and 10 of the Long Term Plan, Councils operating costs including depreciation will still exceed operating revenue by 3%. To fully close this benchmark, and therefore to be able to fully fund depreciation Council would require an additional 3% rates increase on top of those already shown in this Long Term Plan.

This approach to funding the renewals and upgrades will still require commitment from our current and future elected members and community to sustain the proposed rates increases over the life of the Long Term Plan, otherwise Council will find itself in the same position at the end of the 10 years.

There is no simple sustainable way of funding renewals, other than rating for them, even if Council chose to create a renewal fund. As renewals (asset replacements) are lumpy expenditure by nature dependent on what needs to be replaced from year to year, Council will commence utilising a renewal fund to smooth this impact on ratepayers. Any renewals monies unspent at the end of each financial year will be invested to fund future years capital programs.

This option to debt fund in the short term essential renewals and upgrades, creates a new debt of \$22.4 million over the next five years. This option will incur

additional loan repayments of \$7.43 million and \$5.35 million of depreciation over the next 10 years. This equates to an average rate increase for each urban property (with water services) in the district of \$283 per annum, and \$26 for each rural property in the district per annum to fully fund this option.

These upgrades will help us to continue to deliver our existing levels of service.

This option is our preferred option to rapidly address the historic underinvestment we face. Debt funding the 'catch-up' provides an opportunity to deliver the works with less immediate financial burden on the community, as opposed to funding the renewals solely through rates, which would incur significant further increases above those already projected.

Responding to the backlog of renewals is one of our biggest challenges as a District. We cannot move forward until we have addressed them.

OPTION 2

Fund essential renewals and upgrades through rates alone – resulting in significant rates increases

This option proposes to deliver a step change in funding renewals and upgrades, however through rates only, not debt in the first five years to support a catch up.

Historically, previous Councils have chosen to fund renewals through rates only, without utilising debt. This meant that funding renewals would have resulted in significant rates increases, as Council required rates to cover the cost of asset replacements in that year. Depending on the assets proposed to be replaced in that year, the requirement could be very large in one year. As a result, previous Councils chose to defer or cancel renewals all together and not fund the replacement of its assets in that year or at all to keep rates low.

These upgrades will help us to continue to deliver our existing levels of service.

The capital cost of this option \$22.4 million over the next five years. This option will incur additional rates of \$22.4 million and \$5.35 million of depreciation over the next 10 years. This equates to an average rate increase for each urban property (with water services) in the district of \$665 per annum, and \$80 for each rural property in the district per annum to fully fund this option.

This approach would require rates increases significantly greater than the increases already proposed, to fund the work through rates alone.

OPTION 3

Continue to defer renewals and upgrades (status quo)

We purposely continue to defer renewals and capital improvements, taking a high risk approach to our infrastructure. We complete renewals at a slower rate and run assets to the point of total failure. This is the historic approach that has been adopted by Council over the last two decades, in order to keep rates artificially low.

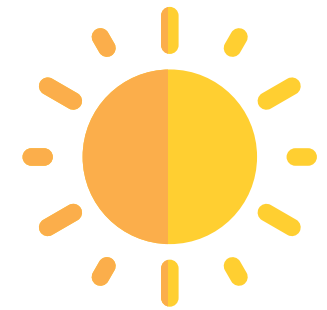
In this option, we will endeavour to maintain the existing levels of service that the community currently experience, however a likely outcome is that the public could expect increased outages and disruptions that could impact on levels of service.

This is a high-risk approach – leaks across the network would further increase, water outages and other failures would occur more regularly. The Council and community could face increased legal risk from potential environmental breaches, or failures to meet new compulsory standards if work was not completed in a timely manner.

This option would further defer the need for rate increases to fund renewals of \$22.4 million over the next five years, however the average age of assets will continue to increase and the risk of failure will also increase. Operational maintenance costs are likely to increase with additional repairs and maintenance required to keep aged equipment operational. There is an increased likelihood of service delivery outages due to infrastructure failures and resultant repair downtimes.

Clearly this option is not a best practice or recommended approach, however has been the model substantially supported by the district for some time, hence is included for consultation.





Creating a Waste Free CHB

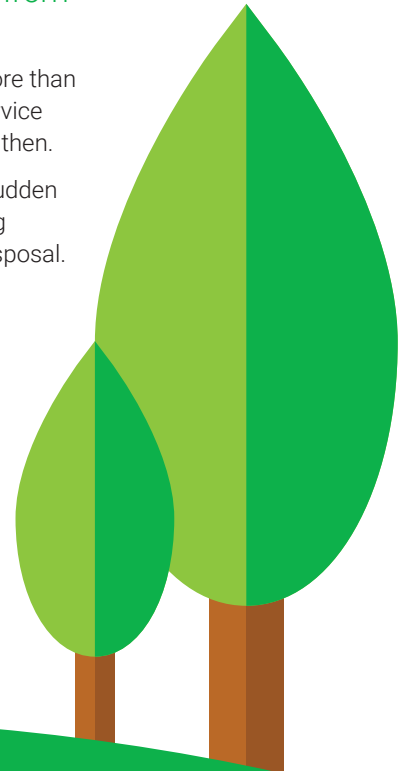
As a community we've set an ambitious vision for a Waste Free CHB. This is supported by targets to increase participation in kerbside recycling and divert waste from landfill, but we have some work ahead of us.

Central Hawke's Bay was an early adopter of kerbside recycling more than 20 years ago. Our current kerbside bag collection and recycling service has served us well, but has remained substantially the same since then.

The world of rubbish and recycling is complex, often affected by sudden changes and fluctuations of international markets for raw recycling materials, and government policy relating to the cost of rubbish disposal.

We're proposing change for our recycling and rubbish services and we want your views on some important trade-offs.

Have your say to help determine the next steps for our District.



Our options

OPTION 1

Extend recycling and rubbish services at a small cost

We propose to introduce a Council rubbish wheelie bin service and extend our crate recycling service to Takapau, Otāne, Ongaonga and Tikokino and close our rural recycling drop off centres at these locations. Waste transfer stations across the district see no change in the first five years.

The proposed changes will decrease the general rate by \$55,000 (or an average of \$7 per property across the district) in the first year of the Long Term Plan, however increase the targeted rate for those that will receive the new recycling services.

A new \$72 targeted rate will be applied to those in rural townships, who will be receiving the new kerbside recycling service.

In Year 3 of the Long Term Plan, all ratepayers in the kerbside rubbish collection zone will pay an additional \$41 in rubbish targeted rates, with the introduction of a new Council operated wheelie bin service.

This extended service, while not an increase to the levels of service, will support the overall achievement of our proposed levels of service, including customer satisfaction with recycling and the diversion of waste from landfill.

Properties will be affected differently depending on whether they are in or out of the new collection areas (see page 39 for sample ratepayer rates). This option achieves change with minimal financial impact, meaning just a small increase in overall rates to those that receive the service currently.

This option is our preferred option as it has minimal financial impact on our community and rates.



It honours our commitment to prioritise general rates expenditure on core infrastructure. It also allows for further change in the future, if required.

Key changes:

- Introduce three crates for kerbside recycling – glass, cardboard, and tin and plastics
- Extend kerbside recycling service to Takapau, Otāne, Ongaonga and Tikokino (targeted rates increase for these locations, however a general rates decrease occurs across the District)
- Introduce 120L wheelie bins for refuse collection to every serviced household (in 2023/24), cancelling the current rubbish bag service. This means you may not require a private wheelie bin and will no longer be able to purchase Council rubbish bags
- Create a new rural recycling scheme, targeting locations using mobile recycling containers
- Closure of recycling drop off centres in Takapau, Otāne, Ongaonga and Tikokino
- No change to recycling services in Pōrangahau
- Investigation of food waste and green waste service for consideration in the 2022/23 Annual Plan.

While this option has an environmental benefit of supporting recycling, the introduction of a wheelie bin for refuse has the potential to increase volumes of rubbish overall.

Creating a
Waste Free CHB

CHALLENGE

#3



OPTION 2

No change to rubbish and recycling services (status quo)

This option involves no change to any recycling, rubbish, drop off centre or transfer station across the District.

This option has no impact on existing debt or rates and is purely a status quo option financially. It reflects that for some in the community, particularly our older generation, our current crate and bag service is relatively low cost and fit for purpose for their rubbish and recycling needs.

While having no cost impact, no disruption to existing levels of service or operational activities, this option does not allow us to move towards targeted environmental outcomes.







Environment vs convenience – what's your choice?

Wheelie bins can make our lives easier and are more convenient, but often do not achieve the environmental outcomes we expect. Contamination of recycling and increased rubbish volumes are two examples of drawbacks often associated with introducing a wheelie bin service.

To help guide us in our decision making, we specifically want to hear from you about your preferred choices on rubbish bags vs rubbish wheelie bins, and recycling crates vs recycling wheelie bins and the environmental and convenience trade-offs that result.

Have your say!

Tell us what your preferred recycling and rubbish services you would like from Council. Head to page 45 to make a submission on your preferred options.

		Environmental Outcomes	Convenience to users	Cost of delivery
Rubbish				
Council rubbish bags		High – effective in reducing waste to landfill as users actively consider what they put in bags.	Low – more effort needed in purchasing, storing and carrying bags to street.	Low – no increase to current service provision (status quo).
Council provides a 120 Litre wheelie bin for house-hold rubbish		Medium – 120L wheelie bin manages volumes of waste and still encourages users to engage with their waste.	High – easy to use, clean, less smell, one bin vs numerous bags, easy to take to street.	Medium – a small cost increase, which could be offset by savings in the general rate, however increases in the rubbish targeted rate if you receive the service.
Recycling				
Three crate system – User sorts recycling into three separate crates		High – considered the most effective way to increase recycling volumes and diversion from landfill.	Medium – better than the current two crates but still not as easy as a wheelie bin.	Low – a small cost increase, which could be offset by the closure of some drop off centres.
Recycling wheelie bin		Low – evidence to date shows this option results in increased contamination and recycling going to landfill (Christchurch has seen 50% of recyclables in landfill since introduction).	High – easy to use, clean, less smell, one bin vs several bags, easy to take to street.	Medium – a small cost increase, which could be offset by the closure of some drop off centres.

Most beneficial
 Little change
 Least beneficial

CHALLENGE
#4

How do we pay for the growth we are experiencing?

The secret is out. Central Hawke's Bay is growing like never before!

In 2018 Central Hawke's Bay's population hit an all-time high of over 14,000 residents, reaching levels of growth not seen since the 1960s. Fast forward to 2031 and despite the current economic times, that number is projected to increase to more than 18,000 people – with over 1449 homes forecast to be built in that same time.

Being prepared for what's ahead is critical to ensuring future generations of residents in Central Hawke's Bay continue to thrive.

Historically, the Council has not prepared for the levels of growth we are experiencing – in only 2013 the district was in a state of decline. Most of our infrastructure is unable to support new connections without major upgrades. Many of our areas are also poorly serviced, or not serviced at all, with parks and open spaces. This situation will worsen as further infill subdivision and development occurs.

We are now preparing for growth as quickly as we can, completing planning documents such as our Integrated Spatial Plan 2020-2050, to understand where key townships will grow in the future.

We will notify our review of the current District Plan in May of this year, and are proposing regular reviews of the plan to ensure we are prepared to open new growth areas as required.

Should those driving the growth pay for the growth?

In our Long Term Plan pre-engagement last year, you told us that those creating the growth need to pay for the growth. We've now crunched the numbers of what that means and need your feedback.

Do you agree with this approach or should ratepayers continue to subsidise the cost of growth? We've outlined some options for you to feedback on so we know where you stand.





Development contributions for growth

What is a Development Contribution?

A Development Contribution (DC) is payable usually at the time of subdividing land, where there is increased demand on council assets and services.

Development Contributions can only be sought for projects in the future, not for projects already completed. They must relate directly to a specific geographic area where the growth can be attributed and must be spent within ten years of being collected.

What do Development Contributions actually pay for?

Development Contributions only pay for the impact of growth on the Council's network. This includes things like new parks or playgrounds, or upgrading / installing new wastewater or water pipes to cope with new houses.

What do Developers pay for?

Developers, not the council or the community, pay for the construction of roads, footpaths and the wastewater, stormwater and drinking water infrastructure in new subdivisions. At the completion of a subdivision these new assets are vested or 'gifted' to council to maintain and to plan for their replacement or upgrade.

What's our local approach to Development Contributions?

Our current approach has been to attribute 10% of the total costs of key three waters projects, where they can be attributed to a specific geographic location, to Development Contributions. This has seen areas such as Waipukurau and Waipawa with considerably lower Development Contribution costs compared with other areas of the district and the wider region, with the Council having not confirmed in 2018 its approach for wastewater. This means we have not been taking any development contributions for the future upgrades of our wastewater treatment plants.

In developing this LTP, we have undertaken detailed work to identify projects related to growth in each geographic area.

Accelerating growth by reducing Development Contributions

Some councils choose to accelerate and support growth by reducing the cost of or having no development contributions. This approach values growth by reducing the costs associated with development.



CHALLENGE

#4

How do we pay for growth?

Our options

OPTION 1

Developers pay for the full cost of growth

Increase development contributions to reflect the new actual cost of development, rather than the ratepayer having to pay to develop infrastructure solely for new assets as a result of growth.

This option supports overall growth capital to be 100% funded from development contributions rather than council debt. It provides for an additional \$23.6 million of funds to be sourced over 10 years to pay for projects associated with growth, rather than ratepayers debt funding growth aspects of projects.

You could expect the costs of increased development contributions to be passed on to the purchasers of properties by developers, as an increased sale price of the property, to cover the increased costs.

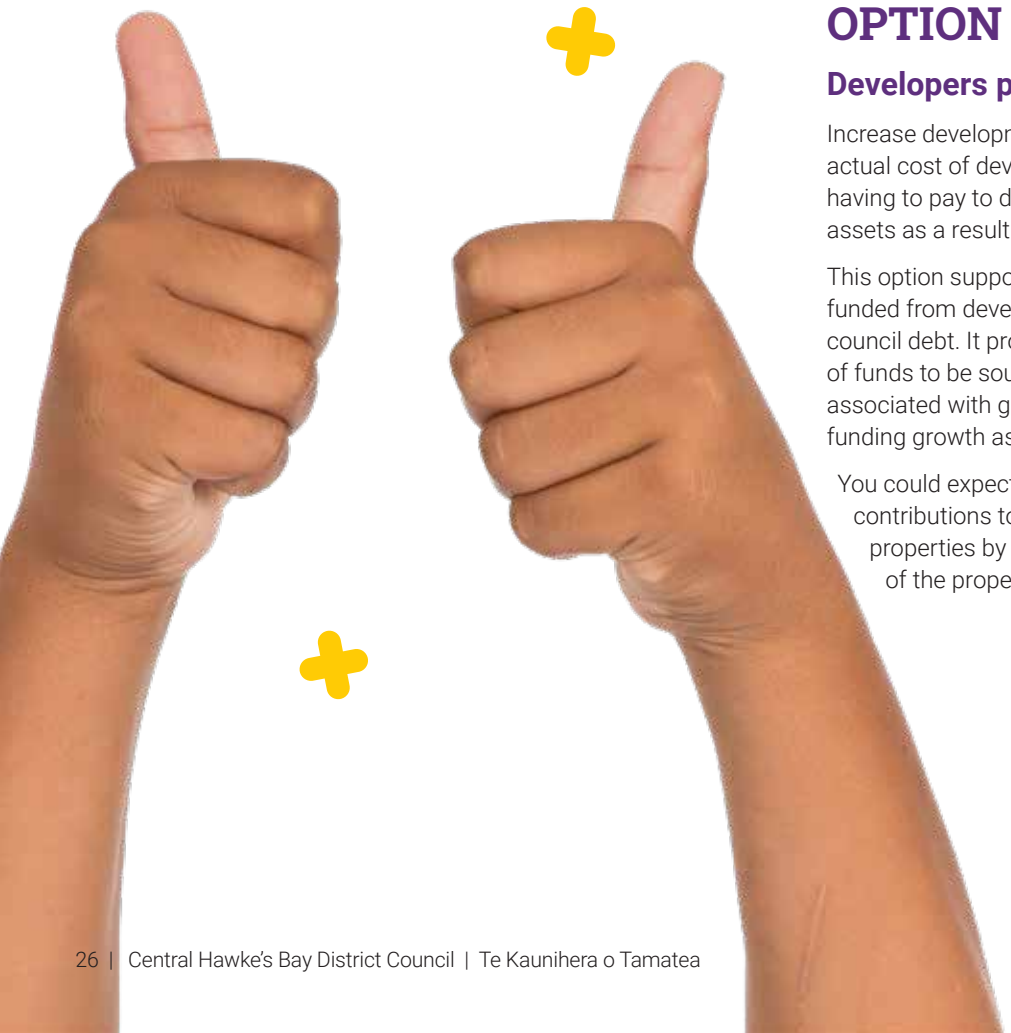


This option will see development contributions increase from:

Location	Current DC	New DC
Rural	\$0	\$1410
Waipukurau	\$3278	\$24,802
Waipawa	\$1805	\$24,802
Otāne	\$7241	\$24,802
Takapau	\$15,984	\$7545
Pōrangahau	\$5251	\$20,226

Prices exclude GST.

This is our preferred option because, during our pre-engagement with the community, we clearly heard that the cost of development should be borne by those creating the cost. While growth is important, it should not burden existing ratepayers, especially when an opportunity exists to maximise external funding to pay for this cost.



OPTION 2

Ratepayers pay for part of the cost of growth

Ratepayers pay for 25% of the cost of growth, funded by public debt rather than development contributions.

This option recognises that there is community good in new people coming to live in the district, supporting the local economy through new jobs and the construction of homes.

Recognising that the proposed cost to service growth in Central Hawke's Bay is high, developers may be discouraged from subdividing and constructing new homes in Central Hawke's Bay if the costs are too high. This could have unanticipated detrimental effects, such as creating further housing shortages in Central Hawke's Bay, as a result of the projected growth not eventuating.

If we reduce development contributions that developers pay, new ratepayer funds would be required to service the debt and the cost associated with the shortfall in funding. If the council were to offset the total cost of growth by 25% (\$5.9 million), the ratepayer would subsidise each newly developed urban property by an average of \$6,201 per property developed with debt funding.

The impact of choosing this option would be an average rate increase of \$74 per rateable property across the district each year over the 10 years to subsidise district growth.

Have your say!

Development Contributions Policy Review

We have completed a substantial review of our Development Contributions Policy, recognising our current policy is no longer fit for purpose for the growth that we are now experiencing and that is forecast to further increase.

There are a wide range of changes, from residential to commercial, along with the introduction of new district wide contributions.

You can find a full copy of our Draft Development Contributions Policy as part of our supporting information at www.chbdc.govt.nz/facingthefacts

Have your say by making a submission.

This option will see development contributions increase from:

Location	Current DC	New DC
Rural	\$0	\$1,057
Waipukurau	\$3278	\$18,601
Waipawa	\$1805	\$18,601
Otāne	\$7241	\$18,601
Takapau	\$15,984	\$5,658
Pōrangahau	\$5251	\$15,170

Prices exclude GST.

We do not support this option of using ratepayer funds for growth, as we believe that the cost of development should fall where the costs can be clearly attributed.



Infrastructure focus

Infrastructure Strategy summary

Our Infrastructure Strategy sets out the 30 year plan for maintaining and improving levels of service for three waters, land transport, landfill and solid waste, and places and open spaces.

The strategy is a major shift from previous versions, providing a greater level of rigour and sophistication in the planning for key infrastructure asset classes than the district has ever had before.

The Strategy outlines principles that guide the management of key infrastructure and sets out the key challenges and focus areas for each type of infrastructure. It also provides an explanation of the planning approach for each type of infrastructure and an overview of the key programmes of work and investment requirements for each type of infrastructure.



See page 128 of our supporting information for a full copy of the Infrastructure Strategy at www.chbdc.govt.nz/facingourfuture

Principles

In developing the infrastructure strategy, the following principles have been adopted to guide our decision making at a strategic and operational level:



Principle 1
Dig Once



Principle 3
Enabling Smart Growth



Principle 5
Fiscal Responsibility



Principle 2
No Band Aids



Principle 4
Community and Environmental Bottom Lines



Principle 6
Innovation and Technology

What is an infrastructure strategy?

An infrastructure strategy provides a 30 year picture and long term thinking to significant decisions around investment in infrastructure. It demonstrates how we are managing our assets sustainably and prudently, through future periods of growth and other pressures.

Significant infrastructure focus areas

To meet the challenges identified with managing our infrastructure, and achieve Project Thrive's community outcomes, we have committed to prioritising the following focus areas for infrastructure planning and investment:

Delivering the renewals programme

Ensuring the full programme is delivered will be critical for the success of the step change in renewals.

Meeting new and existing Compliance standards

Our assets meet today's standards and we are planning for forecast increased compliance standards

Improving infrastructure resilience

We plan for how our infrastructure needs to respond to changing demands and climate change and we are prepared for emergencies

Planning for responding to growth opportunities

We are proactively responding and addressing growth opportunities for the future

Prioritising community centred and partnership opportunities

We seek out and use our community and partners to implement our infrastructure opportunities

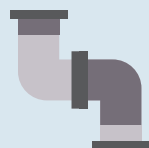
Our key infrastructure at a glance



215kms
of drinking water pipes



400km
unsealed road



131kms
of wastewater pipes



24
Public toilets



40 years
average age of our
drinking water pipes



15
cemeteries



52 years
average age of our
wastewater pipes



48
retirement flats



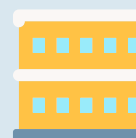
Six
wastewater treatment
plants



185ha
of reserves



1264kms
of road



26
community facilities

Significant enhancements through the life of the Strategy

The step change required in our asset management planning approach (especially for three waters assets) has resulted in a marked increase in capital works, and investment.

Over the life of our Infrastructure Strategy we can have confidence that:

- Investment in Infrastructure is driven by information, science and risk
- Assets are replaced when they are worn out in a manner that does not create a risk burden for future Councils or ratepayers
- Long-term solutions are implemented rather than quick fixes
- Compliance with legislation is mandatory but considered in most cases to be a minimum standard when evaluating project benefits

Further, through the life of the Strategy the Council will see:

- Council catch up on replacing assets that are already beyond the end of their useful life
- Six wastewater treatment plants and discharge schemes fundamentally improved, upgraded or rebuilt
- A focused investment in community facilities, halls, pools and open spaces following the completion of the Community Facilities Strategy
- Investment in water infrastructure to enable and accommodate continued high rates of growth in the district
- Improved water resilience through network upgrades and the replacement of key high risk assets
- Continued investment to maintain the condition of our urban and rural roads

Capital Deliverability

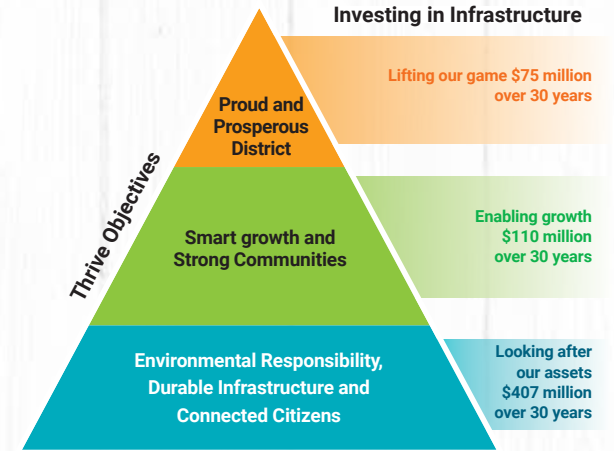
This Long Term Plan sees a major increase in capital expenditure over the 10 years, particularly in our three waters activity. These increases are significant, and above the level of capital funding this Council has delivered historically.

The Council has been gearing up for this step change by:

- Setting up a dedicated internal project management team with specialist project management software
- Procuring long-standing professional services arrangements with key advisors
- Early completion of engineering design work for some of our waste water projects

Prioritising investment in our infrastructure

Our infrastructure investment decisions are driven by our strategic objectives as outlined in Project Thrive. We know that if we lay solid foundations in our core services and facilities, for example building durable infrastructure, there is a positive flow-on effect in every other aspect of what we do. As such, we categorise our investment in infrastructure into three primary categories which align to our Thrive objectives.



- While important, not our immediate investment priority.
- Essential for our District's future. Our focus on essential growth only.
- Our biggest priority and spend.



Responding to climate change

The impacts of climate change are already being felt in Central Hawke's Bay. Changing weather patterns, more frequent and more severe storms, and the recent record-breaking drought, are examples of what we can expect to see more of. It is important that as a District we plan as best we can to meet these challenges. This Long Term Plan is influenced in many areas by climate change with most significant influences being the known impacts on our water, wastewater and stormwater networks, which are primarily affected. Our existing and future infrastructure will be tested by changes in the climate. Rain events raise water levels, affecting our stormwater, wastewater and roading assets. Further, changing land-use patterns affect our assets and can affect the physical, economic and social composition of our District. Throughout this Long Term Plan the impacts of climate change have been accounted for across relevant activities.

Further information specific to how climate change is impacting investment in infrastructure can be found in the Infrastructure Strategy in our supporting information pack.

Asset condition summary

Understanding the condition of assets through targeted condition assessment programmes is a core part of what the Council and its contracting partners do. Sometimes this involves the use of highly advanced and sophisticated technical equipment such as the laser technology we use to assess road surfaces, and sometimes it is as simple as a visual inspection of a standing asset like a pump-head. It is not always possible, practical or affordable to routinely gather accurate condition data on all of the Council's assets. Underground assets are more difficult and costly to inspect than those above ground, so often asset age or other available information is used as a different way to assess condition. This is typically based on risk, with higher risk assets being inspected and assessed more rigorously.

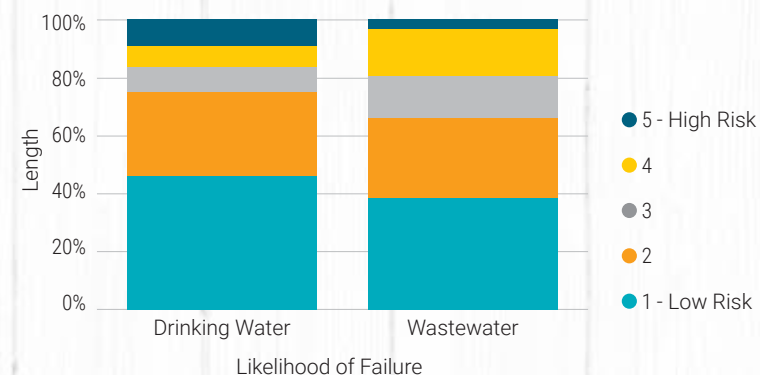
Our Infrastructure Strategy includes tables and figures which show the average age of our assets. On average, our assets are at, or near, the midpoint of their standard useful lives / condition / or degradation cycle. In other words, about half of the Council's assets are currently 'ok' in terms of condition. But looking at our assets through this lens alone tells only half the story. The reality is that there are number of critically important infrastructure assets that are at the end of their useful life and at high risk of failure.

This LTP places significant focus on our piped infrastructure which is failing in many areas due to age and condition. The charts shown to the right provide a snapshot of the likelihood of failure of our two most critical and largest sets of pipe assets (water and wastewater).

The charts show that between 20% and 40% of these assets have a likelihood of failure score of '3' or above. This indicates the risk of failure is increasing and intervention should be considered or planned for. It is these assets, and particularly those graded a likelihood of failure score of '5', that are driving our investment in pipes.

Nearly 25% of our drinking water pipes and nearly 40% of our wastewater pipes are due for replacement.

Pipe assets likelihood of failure



Read the full Infrastructure Strategy for more information

The Infrastructure Strategy on page 128 of our supporting information pack, outlines more detail on the nature of our assets, including their installation date and how we have assessed the levels of confidence we have in our data.

View our supporting information at www.chbdc.govt.nz/facingthefacts



What is a financial strategy?

The financial strategy outlines our overall approach to managing our finances. It sets our limits on rates increases and debt, illustrates the overall financial impacts of decisions made in the Long Term Plan and is key in demonstrating prudent financial management.

Crunching the numbers

Financial Strategy – Facing the numbers

Years of historical low rates increases, despite mounting deferred renewal and capital investment programmes, means as a community we are now having to face up to the numbers of our past. We are also faced with a number of historic poor investment decisions in relation to assets such as our wastewater.

We've pulled every lever and used every tool available to us to minimise our rates and deliver essential renewals and upgrades to our infrastructure. This includes the use of external funding and reprioritising every aspect of our spending. Despite this, we've now reached a point where we still face large rate increases. Even if we cancelled every non-core activity such as libraries, economic and social development and closed parks across the District, the extent of our deferred renewals and required investment in core infrastructure means these savings still wouldn't be enough.

Our Financial Strategy

The Financial Strategy is the foundation of the Council's LTP goal to manage growth and the required renewals and investment, while living within our means. To achieve this, the focus of the strategy is to achieve operating surpluses, sufficient to reinvest into our asset infrastructure, to ensure they are sustainably managed and comply with legislative requirements.

A key aspect of our Financial Strategy is to try and reach a prudent balance between loan and rate funding for the purchase of new and maintenance of old assets.

To reduce the need to borrow, we intend to progressively pay for more asset renewals from rates, with loans being used to fund new assets required for increases in levels of service and growth.

We are signalling significantly higher than normal rates increases in the Draft 2022-2031 Long Term Plan in order to achieve the financial goals of:

- Funding renewals through rates (rather than debt funding, which is what the Council is proposing to do in the short term (first five years) to catch up on historic underinvestment)
- Finding alternative sources of income to fund growth projects
- Balancing the operating budget.

You can view the full Financial Strategy and our prospective accounts in our supporting information by visiting www.chbdc.govt.nz/facingthefuture

Funding historical underinvestment

Depreciation is the spread of the cost of an asset over its useful life.

One of the Council's operating costs is depreciation. This is the accounting method used for spreading the replacement costs of assets over their useful life. For example, a wastewater treatment plant that costs \$30 million, and is expected to last for 30 years, will have a depreciation charge of \$1 million per year.

In an ideal world, the Council would rate to fund depreciation so that when the asset needs replacing, we are holding cash reserves (from years of rating for depreciation) equal to the cost of the replacement asset. However, in practice, because the money isn't needed until later years, the easiest way for councils to keep rates artificially low is not to fully rate for asset

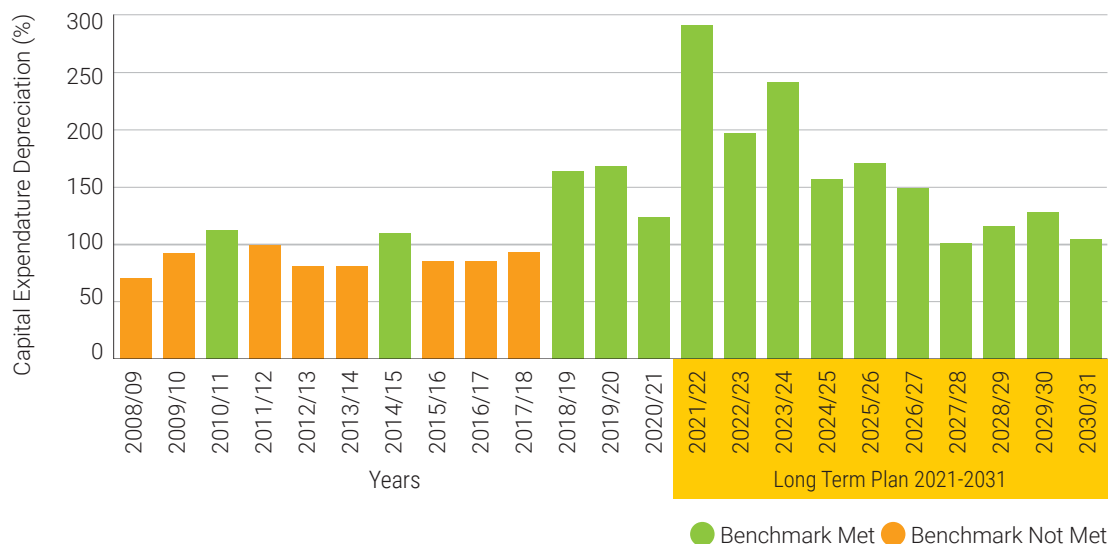
replacements. As most Council infrastructure assets have a life expectancy of 30 to 100 years, the cash shortfall doesn't become apparent for many, many years. Unfortunately, this is the case we find ourselves in, where historically rates increases have been artificially held below the cost of inflation (see graph below).

Not fully funding depreciation, changes in water treatment and wastewater discharge compliance regulations, and a growing population means that many of our assets are at the end of their useful life, and are no longer fit for purpose.

Council plans to address this issue through embarking on a significant capital program of asset replacements. Initially Council will fund this through the use of debt, but from year 6 Council will revert back to rate funding these. This will see a significant step change in rates at this point, however this alone will not be sufficient to fully fund depreciation going forward but will significantly close the gap.

As renewals (asset replacements) are lumpy expenditure by nature, Council will commence utilising a renewal fund to smooth this impact on ratepayers, and any renewals monies unspent at year end will be invested to fund future years capital programs.

Essential Services Benchmark – Capital Spend vs Depreciation



What does this graph mean?

The graph shows how much Council is spending per year on essential acquiring assets (roading, drinking water, waste water, and stormwater) per year versus how much it is recording as depreciation.

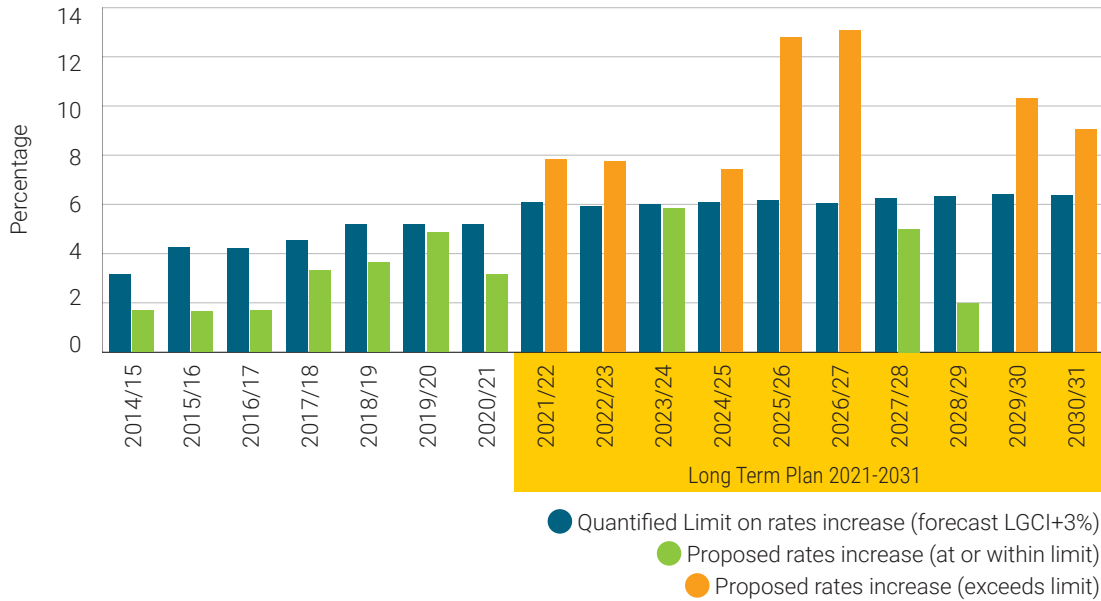
What this highlights is that the Council has historically under invested in asset renewals. This coupled with aged assets, and increasing compliance regulations, means that the Council is having to invest significantly in replacing and upgrading its assets over the next 10 years.

The green bars over the life of the Long Term Plan, show that we plan to replace more of our assets than we have to address this catch up.

Rates affordability

Central Government sets a number of legislative standards that the Council must report on as part of preparing a Long Term Plan. One of these standards is the affordability of rates, which must be within a set limit that each Council decides upon in the development of its Financial Strategy. Council has set this limit as a policy decision, recognising the aspiration of elected members and the community's desire to keep rates at an affordable level. In reality however, the policy cannot be achieved as we face the facts and the requirement to raise rates above this policy limit, out of necessity.

Rates (increases) affordability benchmark



What does this graph mean?

The graph shows that in order to catch up on the historic underinvestment in our infrastructure, the Council is temporarily willing to exceed its own rate increase limits that it has set as part of its Financial Strategy. The Quantified Limits, as shown in the graph, represent Local Government Inflation forecasts plus 3%. The years that the proposed rates increases exceed this limit are shown in orange.

Rate increases will need to continue at levels above inflation until such time as it meets the balanced budget benchmark, at which point it would be fully funding depreciation.

Due to rates affordability constraints, this won't be achieved in this LTP. However, should Central Government Three Waters Reform occur in 2023/24, we will use this opportunity to revisit budgets with a view to fully funding depreciation at this point. Otherwise this will be revisited in the 2025-2034 Long Term Plan.



Big district, small population

One of the other challenges facing Central Hawke's Bay is that it has a small population base dispersed across a wide geographic location. All councils have to comply with the same drinking and wastewater standards, regardless of their size and population. For example, Napier City Council has 25,720 rating units to fund a single, but larger wastewater treatment plant and associated resource consents, while Central Hawke's Bay District Council only has 4,175 rating units, to fund six wastewater treatment plants due to our population spread.

Napier vs Central Hawke's Bay



Napier City Council has 25,720 rating units to fund one wastewater treatment plant



Central Hawke's Bay District Council has 4,175 connected rating units to fund six wastewater treatment plants

Balancing the budget

Balancing the budget shows that operating revenue is sufficient to cover operating costs, including depreciation.

To catch up on previous historical underinvestment, the Council is going to utilise debt to fund its renewals in the short term (rather than rates).

Obviously it would cripple ratepayers if the Council was to pay for the catch up of years of underinvestment in its infrastructure through rates alone – the rate increases would be unaffordable for many households. To this end, we are proposing to continue to operate operating deficits until 2031, despite some significant rate increases in the meantime, due to the impact of unfunded depreciation (see the graph below to see this).

While the Council won't make accounting surpluses (after depreciation), it will still generate cash surpluses.

These will be used to partly fund the cost of replacement assets, however debt funding will be required to cover the shortfall in the short term (next five years).

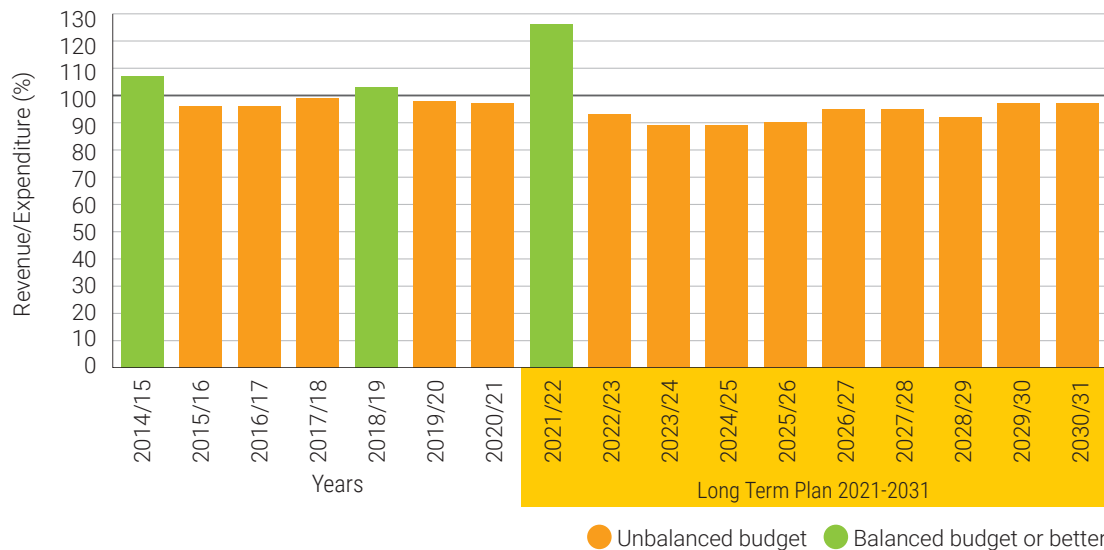
We believe that this is financially prudent in the short term, however cannot continue in the longer term. That is why we are proposing large rate increases in Year 5 onwards in the Long Term Plan (as part of Challenge 2). This will ensure the renewals are fully funded through rates and not debt, to get closer to having a balanced budget.

Despite the step change in rates indicated in the Long Term Plan, Council will still be running a 3% shortfall in years 9 & 10 of the Long Term Plan. To fully close this

gap and fully fund depreciation, rate increases would have to be a further 3% from those signalled in Councils. Currently due to rates affordability constraints, this won't be achieved during this Long Term Plan. However, should the Central Government Three Waters Reform occur in 2023/24, we will use this opportunity to revisit budgets with a view to fully funding depreciation at this point. Otherwise this will be revisited in the 2025-2034 Long Term Plan.

See page 121 of our supporting information that provides more information about what we are doing to achieve a balanced budget long term.

Balanced Operating Budget Benchmark



Debt limits

Council is in the fortunate position that it currently has minimal debt, and current interest rates are at historically low levels. This will allow us to implement a dual-prong strategy of using a combination of debt and rate increases to fund the upgrade of assets. Debt allows the Council to spread the costs over the lifetime of the assets.

On the opposite page is the projected Council debt position over the next 20 years.

While the costs of interest are currently low, the cost of servicing this debt and the increased cost of running the new, bigger treatment plants will also lead to an increase in rates over time as shown in the rates (increase) affordability chart on page 37.

New Zealand Councils borrow through the Local Government Funding Agency (LGFA), and they operate a multi-tier lending limit system. Tier 3 Councils can only borrow up to \$20 million, Tier 2 Councils can borrow up to 175% of their annual operating income (the orange line on the graph on page 37), and Tier 1 Councils can borrow up to 250% of their operating revenue (the red line on the graph on page 37).

Until recently Central Hawke's Bay District Council was a Tier 3 Council, but in anticipation of the capital programme, we have moved to Tier 2 and are proposing, as part of this consultation, to update the Treasury Policy to so we can borrow up to 150% of our operating revenue, which is lower than the LGFA's 175% limit (the green line on the graph on page 37).

This will allow us to deliver the first four years of our capital programme, however at Year 5 we will again run out of debt headroom.

We've considered the different approaches available to us, to provide for additional debt headroom to allow future borrowing to deliver the work programme, and to provide capacity to respond to any unforeseen events (such as floods, pandemics and earthquakes).

The approaches we have considered are discounted are:

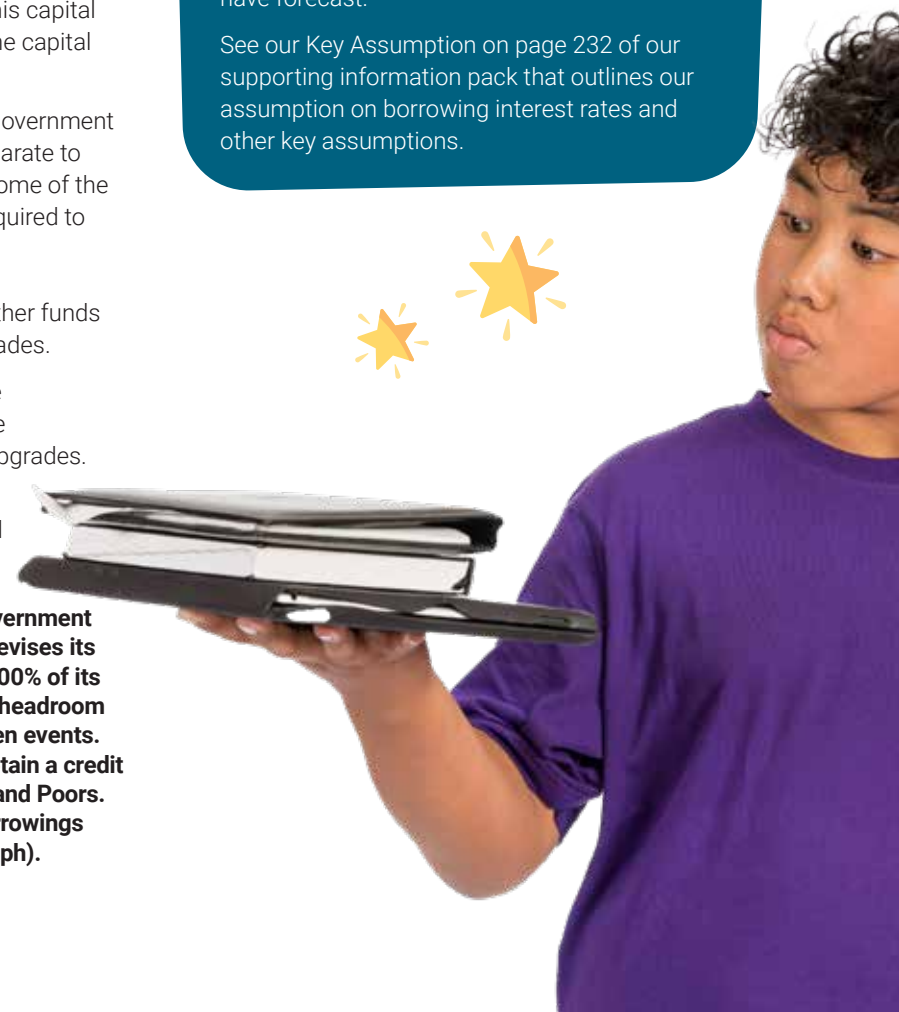
- Require a capital contribution towards the construction of the new wastewater treatment plants from every connected property. This would be in addition to the ongoing annual rates each property pays. This capital contribution would be utilised to complete the capital programme without incurring further debt.
- As mentioned on page 5, there is a Central Government Three Waters Reform process occurring separate to this Long Term Plan. Depending on the outcome of the Government reforms, the Council may be required to transfer its water assets and associated debt in 2023/24 and as a result the Council will not need to substantially borrow any further funds for the implementation of three waters upgrades.
- The fourth option is to halt the infrastructure upgrades it proposes and seek an alternative funding avenue before continuing with the upgrades.

The approach that Council has taken and the assumption that all of the prospective financial statement modelling has been based on for the Long Term Plan 2021-2031, is that Council becomes a Tier One Council with the Local Government Funding Agency (LGFA) and at the same time revises its Treasury Policy to allow Council to borrow to 200% of its revenue. This is needed to give sufficient debt headroom to provide the capacity to respond to unforeseen events. To allow this to occur, Council would need to obtain a credit rating from a credit agency such as Standards and Poors. Once this is obtained, the LGFA would allow borrowings of up to 250% of revenue (the red line in the graph).

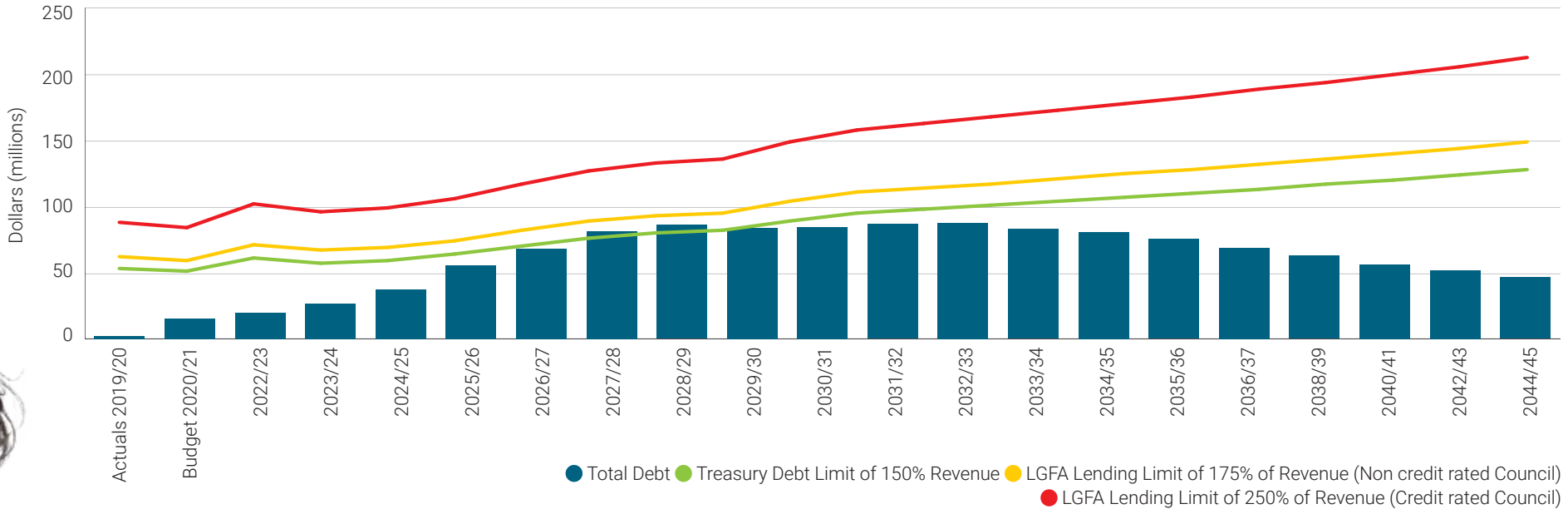
What about if interest rates increase?

We've assumed a 2.5% borrowing rate over the life of the Long Term Plan. We have made this assumption based on Council's current ability to borrow long term at 2.12% per annum. There is a risk that borrowing rates could rise before the required funds are drawn, meaning the costs of borrowing could be higher than we have forecast.

See our Key Assumption on page 232 of our supporting information pack that outlines our assumption on borrowing interest rates and other key assumptions.



Central Hawke's Bay District Council Debt vs Debt Limit – LTP 2021/31



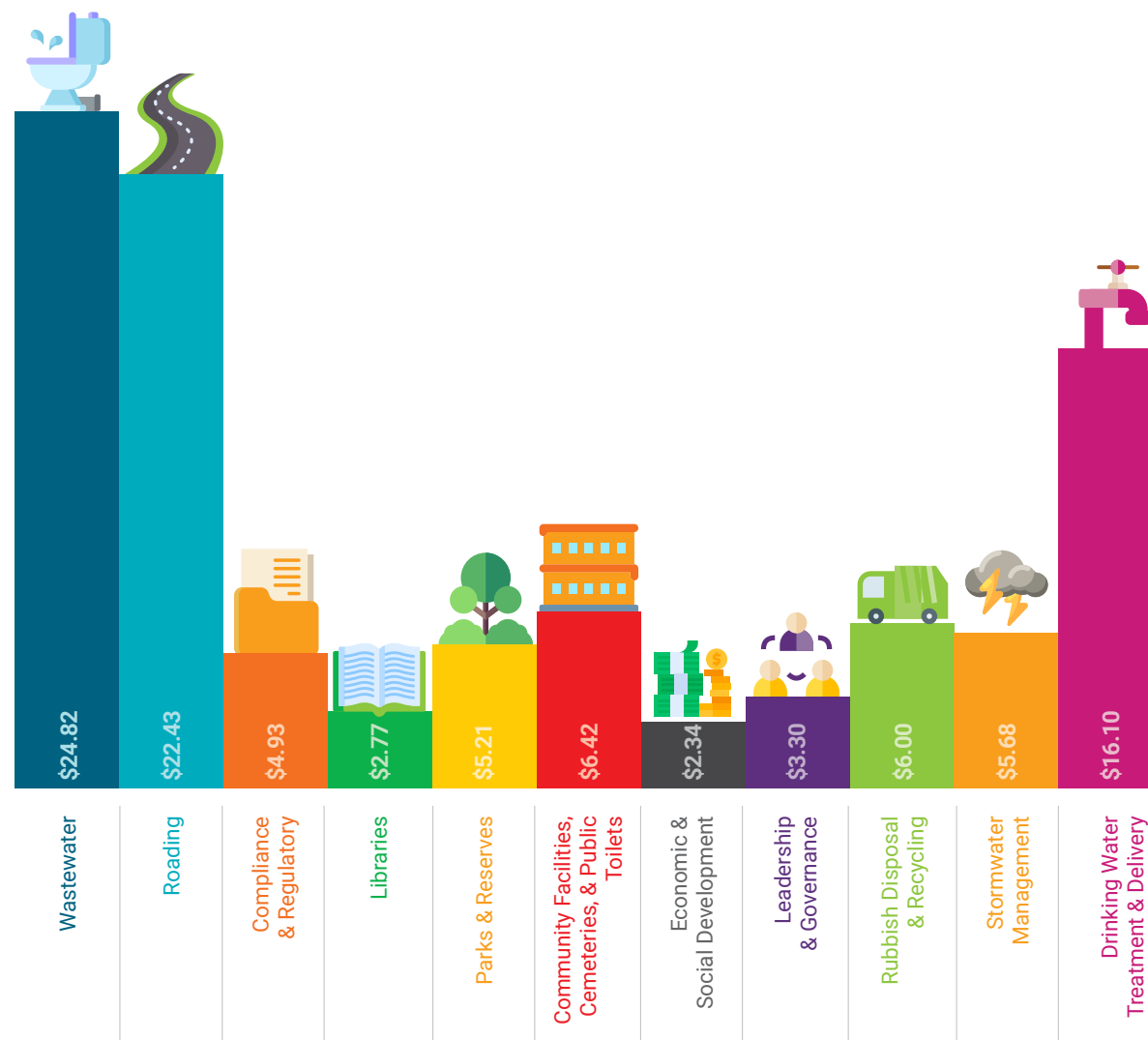
**What do you think?
Have we got the balance right?**

Should we further delay essential upgrades in our core infrastructure to limit our borrowing? What more should or could we be doing? See page 45 on how to make a submission on this and other areas in this Consultation Document.

See our 'Supporting Information Pack' to see our Draft Revenue and Financing Policy and Draft Treasury (including Investment and Liability) Policy.

How rates will be spent over the next ten years...

Where, on average every \$100 of rates will be spent over the Long Term Plan 2022-2031




Proposed rates 2021-2031

We reviewed and consulted on our Revenue and Financing Policy and rating system in 2020, to determine how the Council's costs will be divided across the community between rates and user pays (fees and charges). This resulted in a couple of changes in the cost recovery split between fees and charges, and rates – namely in land use and subdivision consenting, animal control, compliance and monitoring, and stormwater areas. In addition, the stormwater catchment areas (and therefore the stormwater targeted rate) have been extended to include the townships of Takapau and Otāne, as well as a Central Business District differential introduced.

As outlined in 'Challenge Three – Creating a Waste Free CHB', we have proposed to extend kerbside recycling services to Takapau, Otāne, Ongaonga, Tikokino, while closing the recycling drop off centres in these towns. This will see the creation of a kerbside recycling targeted rate for these towns, offset by a savings in general rates due to the closure of the drop off centres.

We also reviewed our Development Contributions Policy (the mechanism that we recover from developers the cost of infrastructure upgrades caused by district growth – not renewals of existing assets). This policy also forms part of the LTP consultation.

We have used a sample of district ratepayers to demonstrate the impact of these changes (based on the assumption that the four preferred options are ratified by the consultation) on rates for 2021/22. The sample rates are shown in the table on the right.



	Coastal Residential		Rural								Urban Residential											
	Te Paerahi		Lifestyle residential		Aramoana		Ruahine		Ruataniwha		Ongaonga		Otāne		Pōrangahau		Takapau		Waipawa		Waipukurau	
Based on: Capital Value	\$495,000		650,000		\$4,880,000		\$2,950,00		\$5,000,000		\$315,000		\$315,000		\$121,000		\$345,000		\$400,000		\$455,000	
Land value	\$295,000		205,000		\$4,240,000		\$2,300,000		\$4,000,000		\$50,000		\$118,000		\$59,000		\$64,000		\$77,000		\$116,000	
	Act	Prop	Act	Prop	Act	Prop	Act	Prop	Act	Prop	Act	Prop	Act	Prop	Act	Prop	Act	Prop	Act	Prop	Act	Prop
General Rate District	539	652	708	856	5,314	6,426	3,213	3,884	5,445	6,584	343	415	343	415	132	159	376	454	436	527	496	599
District Land Transport Rural	645	638	448	443	9,273	9,169	5,030	4,974	8,748	8,650	109	108	258	255	129	128	140	138	168	167	254	251
Refuse Collection Service Available	30	29	-	-	-	-	-	-	-	-	30	29	30	29	30	29	30	29	30	29	30	29
Sewerage Operations Rate Service Available	827	874	-	-	-	-	-	-	-	-	-	-	827	874	827	874	-	-	827	874	827	874
Stormwater Operations Catchment	-	-	-	-	-	-	-	-	-	-	-	-	-	45	-	-	-	37	364	355	414	404
Water Supply Operations Service Available	789	858	-	-	-	-	-	-	-	-	-	-	789	858	789	858	789	858	789	858	789	858
Recycling Collection Rate Service Available	-	-	-	-	-	-	-	-	-	-	-	72	-	72	-	-	-	72	100	72	100	72
District UAC UAC	291	304	291	304	291	304	291	304	291	304	291	304	291	304	291	304	291	304	291	304	291	304
TOTAL	3,121	3,355	1,447	1,604	14,878	15,899	8,533	9,162	14,484	15,538	773	929	2,538	2,852	2,198	2,352	1,626	1,893	3,005	3,186	3,200	3,391
Total \$ Change		234		157		1,021		629		1,054		156		314		155		267		193		191
Total % Increase		7.5%		10.8%		6.9%		7.4%		7.3%		20.1%		12.4%		7.0%		16.5%		6.4%		6.0%

Act = Actual Rates 2020/21 | Prop = Proposed Rates 2021/22

Keeping our community going

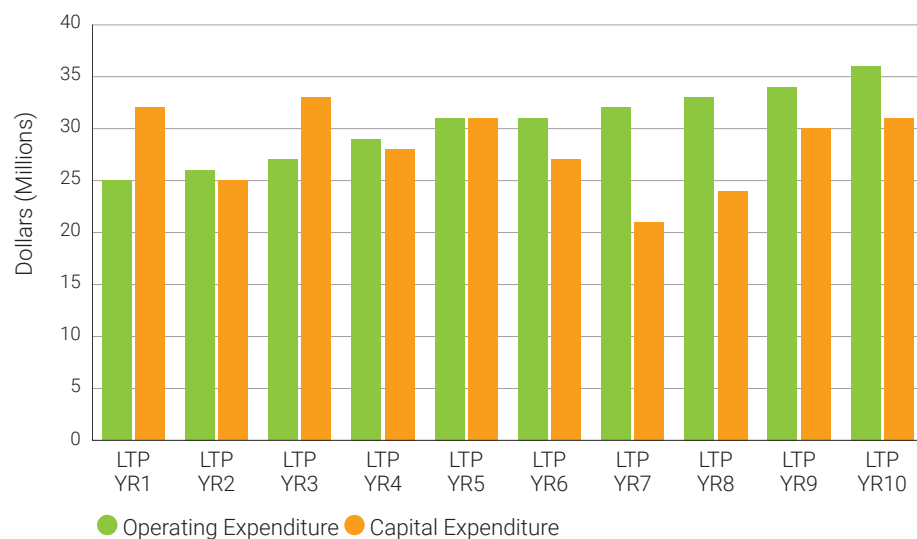
Despite our big challenges, we're working hard to maintain the delivery of assets and services that make Central Hawke's Bay a great place to live and play.

Without trading off playgrounds for wastewater ponds, we've had to prioritise investment in our core infrastructure over many of the community's priorities for the future. This means we've either slowed down, reduced the scope or in some situations, cancelled some projects.

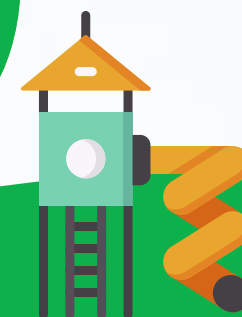
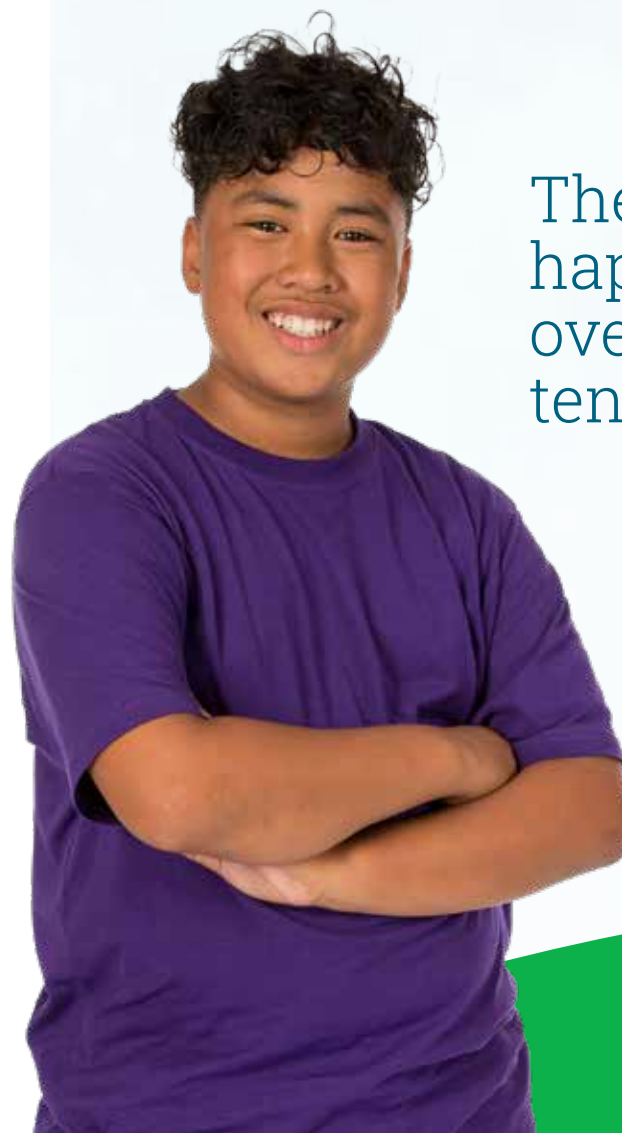
We've had to prioritise our core infrastructure, to ensure our investment is directed to where it is most urgently needed. This means we've had to compromise on some of the things that add vibrancy and character to our community.

The graph below shows that while we're continuing to deliver day-to-day services (represented by the green bars), in addition we are playing catch-up to replace or renew ageing infrastructure (represented in the orange bars). Some of these core infrastructure investments are significant in value and limit our ability to invest in the 'nice-to-have' activities.

Expenditure by Year of the Long Term Plan



There is heaps happening over the next ten years...



Solid Waste

- Potential changes to recycling
- Development of a new landfill cell
- Construction of stage one of a reuse-recovery centre
- Development of a new centralised transfer station

Land Transport

- Road improvements, including resealing and bridge maintenance
- Renewal of footpaths and constructing new ones
- Programme maintenance of the roading corridor
- Completion of the Pōrangahau to Wimbledon Provincial Growth Fund upgrades

Places and Open Spaces

- Delivery of library programmes and services
- Ongoing support of the Centralines Indoor Pool and Central Hawke's Bay Museum
- Renewal of playgrounds, public toilets and open spaces
- New open spaces to respond to growth
- Continued development of Tukituki Trails

Wastewater

- Major upgrades to treatment plants and systems for Otāne, Waipawa and Waipukurau, Pōrangahau and Te Paerahi, and Takapau
- Major renewals (replacement of assets) district wide to reduce leaks
- Upgrades (improvements of assets) to service new growth areas

Water Supply

- Replacement of pipes to reduce leaks and pipe bursts
- Continuation of upgrades to drinking water supply and resilience
- Upgrades to service new growth areas
- Improvements to service firefighting demand

Stormwater

- Upgrades to provide for new growth areas
- Replacement of existing failed stormwater pipelines
- Upgrades to enhance wastewater discharges

Planning and Regulatory

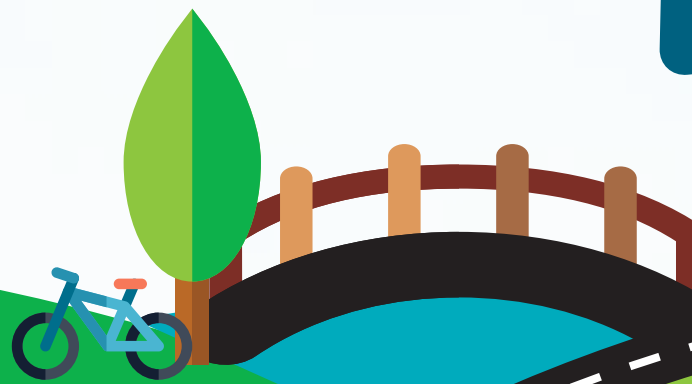
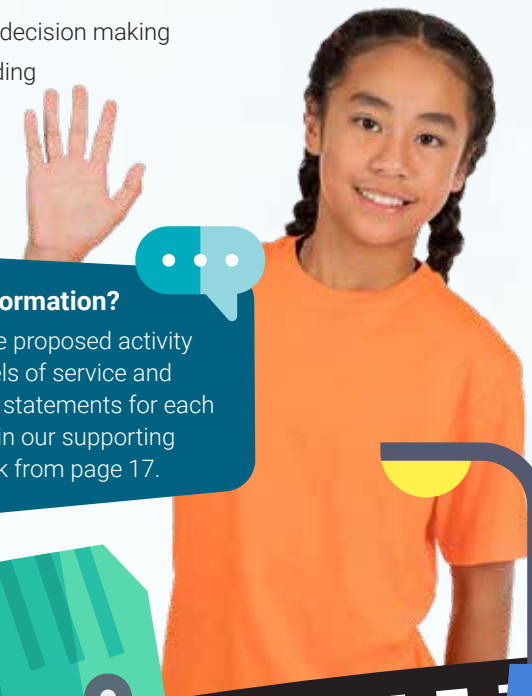
- Review of the District Plan
- Construction of a new pound
- Issuing of building and resource consents

Community Governance, Leadership and Consultation

- Elections
- Democracy and decision making
- Community funding
- Long Term Plan

Want more information?

You can view the proposed activity statements, levels of service and financial impact statements for each of our activities in our supporting information pack from page 17.



Independent Auditor's Report

To the readers of the Central Hawke's Bay District Council's proposed Long Term Plan 2021-2031 and consultation documents

To the reader:

Independent auditor's report on Central Hawke's Bay District Council's consultation document for its proposed 2021-31 Long-Term Plan

I am the Auditor-General's appointed auditor for Central Hawke's Bay District Council (the Council). The Local Government Act 2002 (the Act) requires the Council to prepare a consultation document when developing its long-term plan. Section 93C of the Act sets out the content requirements of the consultation document and requires an audit report on the consultation document. We have done the work for this report using the staff and resources of Ernst & Young. We completed our report on 23 February 2021.

Opinion

In my opinion:

- the consultation document provides an effective basis for public participation in the Council's decisions about the proposed content of its 2021-31 long-term plan, because it:
 - fairly represents the matters proposed for inclusion in the long-term plan; and
 - identifies and explains the main issues and choices facing the Council and Central Hawke's Bay District, and the consequences of those choices; and
- the information and assumptions underlying the information in the consultation document are reasonable.

Uncertainty over three waters reforms

Without modifying our opinion, we draw attention to the disclosure on page 5, outlining the Government's intention to make three waters reform decisions during 2021. The effect that the reforms may have on three waters services provided is currently uncertain because no decisions have been made. The consultation document

was prepared as if these services will continue to be provided by the Council, but future decisions may result in significant changes, which would affect the information on which the consultation document has been based. Council expects further consultation with the community will be required once there is greater certainty with respect to the proposals.

Basis of opinion

We carried out our work in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and the International Standard on Assurance Engagements 3400: The Examination of Prospective Financial Information that were consistent with those requirements.

We assessed the evidence the Council has to support the information and disclosures in the consultation document. To select appropriate procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the consultation document.

We did not evaluate the security and controls over the publication of the consultation document.

Responsibilities of the Council and auditor

The Council is responsible for:

- meeting all legal requirements relating to its procedures, decisions, consultation, disclosures, and other actions associated with preparing and publishing the consultation document and long-term plan, whether in printed or electronic form;

- having systems and processes in place to provide the supporting information and analysis the Council needs to be able to prepare a consultation document and long-term plan that meet the purposes set out in the Act; and
- ensuring that any forecast financial information being presented has been prepared in accordance with generally accepted accounting practice in New Zealand.

I am responsible for reporting on the consultation document, as required by section 93C of the Act. I do not express an opinion on the merits of any policy content of the consultation document.

Independence

In carrying out our work, we complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 (Revised); and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended).

Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the Council.



David Borrie
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand

Other consultations

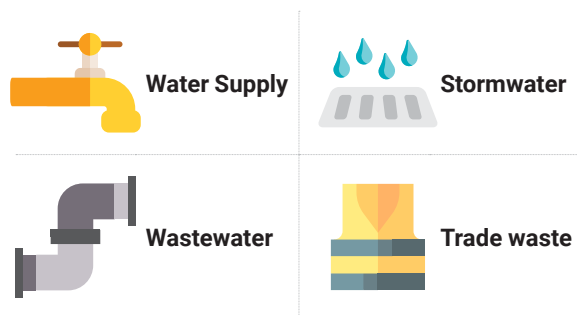
Central Hawke's Bay District Council "Three Waters Bylaw Reviews"

We are also reviewing and consulting on our Water Supply, Wastewater (and Tradewaste), and Stormwater bylaws from 1 to 31 March 2021.

The feedback we receive from you will help us to develop an integrated approach to three waters management in the District.

We want to ensure our approach aligns to, compliments and reflects the feedback we heard clearly from the community through Project Thrive, as well in the development of other projects such as the District Plan Review and the Integrated Spatial Plan 2020 – 2050.

The four bylaws we are consulting on are:



These bylaws influence things like who can connect to our supplies, how much waste can be discharged, the requirement for water tanks at each property and how we manage stormwater.

Our current bylaws need to be refreshed to ensure they reflect the environmental and infrastructural demands of our time.

The new bylaws will inform how we approach asset management and durable infrastructure practices to support our sustainable water demand management plan and wastewater strategy. The impact of these bylaws is wide reaching – it ensures that step by step, we make positive changes which lead to smart growth while being environmentally sustainable.

Bylaw Review Statement of Proposal

View the statement of proposal on our website, containing more information about the rationale of the changes and the proposed bylaws at www.chbdc.govt.nz

Have your say!

We welcome you to have your say on our bylaws.

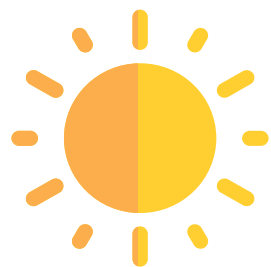
What should our stance be on recovering capital contributions towards our upcoming wastewater upgrades from industry?

Do you support council extending water meters as a key conservation tool?

Should every new build have to install a water tank?

How should we address stormwater flows that enter our wastewater system illegally?

Should we extend our trade waste management to monitor smaller commercial and industry (e.g restaurants, dentists, mortuaries) to further support our wider wastewater strategy?



Have your say!

We want to hear your views on all of the proposals and relevant strategies outlined in this document.

There are a number of ways you can find out more information on any aspect of this document or the LTP process:

- You can visit our website at www.chbdc.govt.nz/facingthefacts
- You can get in contact with one of our Council staff on **06 857 8060** or elected members (elected member contact details are on page 6 of this document).
- Email us facingthefacts@chbdc.govt.nz



Supporting Information includes the financial and infrastructure strategies, financial statements, policies, activity statements and other information, such as our key assumptions and draft development contributions policy, in a pack we've called our 'supporting information'.

This Information can be found on our website or at one of our service centres in Waipukurau (Pop-up located at the old Waipukurau Railway Station), Council Office in Waipawa or Waipawa Library.



How to make a submission – it's easy!



Anyone can make a submission on this Consultation Document online at www.chbdc.govt.nz or by completing a paper submission form. Forms can be found at any of the Council Service Centres.

Submissions can be delivered to:

- Central Hawke's Bay District Council Offices, 28 – 32 Ruataniwha Street, Waipawa
- Service Centre Pop-up – Bogle Brothers Esplanade, Waipukurau
- Waipawa Library, High Street, Waipawa

Posted to:

Central Hawke's Bay District Council, PO BOX 127, Waipawa 4240

Emailed to:

facingthefacts@chbdc.govt.nz

When you make your submission you can choose to present at a Council Hearing.

 Submissions close Wednesday 31 March 2021



This Consultation Document was released for public consultation on Monday 1 March 2021. If you are wondering where you can find out more information about this document, its supporting information and the submission process please see page 44 of this document.

Submissions close Wednesday 31 March 2021



Central Hawke's Bay District Council

facingthefacts@chbdc.govt.nz

06 857 8060 • www.chbdc.govt.nz

PO Box 127 • 28 - 32 Ruataniwha Street, Waipawa 4210



**CENTRAL
HAWKE'S BAY**
DISTRICT COUNCIL