Financial Reporting Benchmarks

The purpose of the statement set out below is to disclose the Council's financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

These new reporting measures are set out in the Local Government (Financial Reporting and Prudence) Regulations 2014. This legislation is prescriptive as to the format and content of the benchmarks to be reported on.

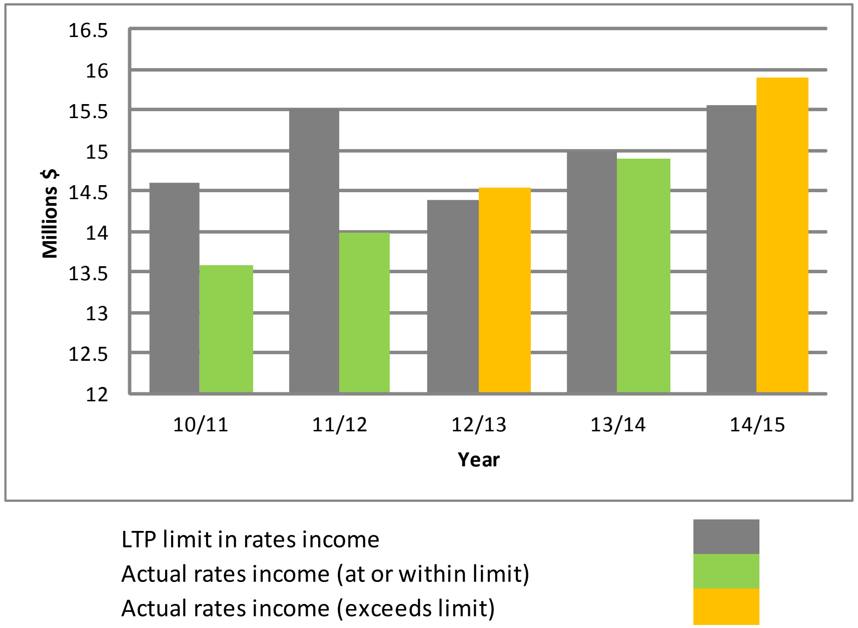
1. Rates affordability benchmarks

"The Council meets the rates affordability benchmark if:

- *its actual rates revenue equals or is less than each quantified limit on rates; and*
- *its actual rates increases equal or are less than each quantified limit on rates increases."*

A) Rates Revenue Affordability Benchmark

The following graph compares the Council's actual rates revenue with a quantified limit on rates contained in the financial strategy as included in Council's long term plans. The quantified limit used in the graph below is the budgeted rates figure as per the LTP and uses dollars as unit for measurement for budgeted and actual rates.



2010-11 (Below Limit by $1,009,000)

The reasons for actual rates being below the level set out in the Long Term Plan were due to:

- It was assumed that $218,000 of the science expenditure would be collected from a targeted rate. The Council actually collected these funds by a section 36 charge on water consent holders.
- It was assumed the Council would collect $250,000 through a targeted rate for nutrient stripping developments in the Tukituki valley. This targeted rate was not implemented.
- The subsidised passenger transport rate proposed in the 10 Year Plan 2009-2019 was decreased by $478,000 because the New Zealand Transport Authority was not in a position to support the proposed additional services.

2011-12 (Below Limit by $1,549,000)

The reasons why actual rates were below the limit set in the Long Term Plan are:

- Most of the reasons for the variation actual to budget are provided above under the reasons for 2010/11. Further, the 10 Year Plan 2009-2019 provided in the 2011/12 year for an additional $231,000 of water science expenditure to be collected as a targeted rate. This further amount was also collected by a section 36 charge on water consent holders.
- There was a decrease in general rates of $124,000 due to efficiencies made in Council's operations resulting in decreased costs.

2012-13 (Exceeds Limit by $152,000)

The marginal increase in actual rates over that level planned relates to additional rating units (properties relating to new housing developments etc) being added to the rating database when the Council sends out the rates assessment during October of each year. The rating revenue as included in the Long Term Plan uses as a basis, the rating units on the database at the time of the development of the Plan which is February/March of each year.

2013-14 (Below Limit by $76,000)

For this year rates did not exceed the limit - the decrease being due to Council resolving to achieve expenditure reductions and limit the rates increase to the level of increase in inflation.

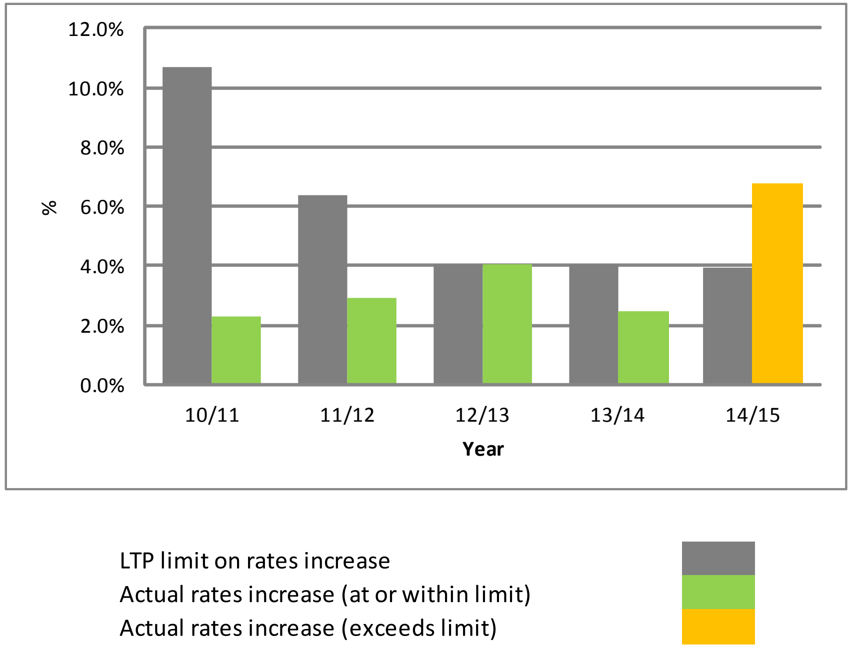
2014-15 (Exceeds Limit by $344,000)

For this year rates exceeded the limit for two reasons:

- Actual rates increase was 5.86% (as compared to an LTP increase of 4%). This was 1.86% over the LTP level which was approved by Council to restore the reduction in rate levels during 2013-14. That year saw an actual increase of 2.8% as compared to a 4% figure in the LTP. A decrease of 1.4%.
- Additional flood and drainage scheme rates of $104,000 (0.7% of total rates) covering the Makara scheme (75 ratepayers) and Opoho scheme (3 ratepayer).

(B) Rates Increases Affordability Benchmark

The following graph compares the Council's actual rate increase with the quantified limit on rate increases included in the financial strategies in Council's long terms plans. The quantified limit used in the graph below is the budgeted percentage increase as per the LTP and uses percentage increase as a unit of measurement from the previous financial year.



The explanations for explaining the variances for each of the years when comparing the budgeted percentage increase in rates as compared to the actual increase in rates are consistent with the explanations as provided in the preceding graphs on Rates revenue Affordability.

2. Debt Affordability Benchmark

"The Council meets the debt affordability benchmark if its actual borrowing is within each quantified limit on borrowing."

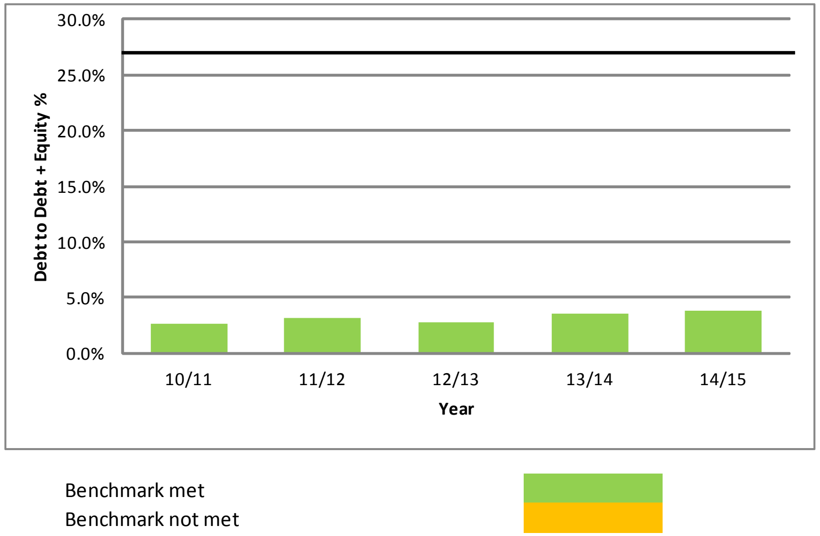
The financial strategy included in Council's Long Term Plan set out two quantified limits on borrowing, being:

a) Total interest expense on external public debt (including lease annuity) will not exceed 25% of total annual operating expenditure.

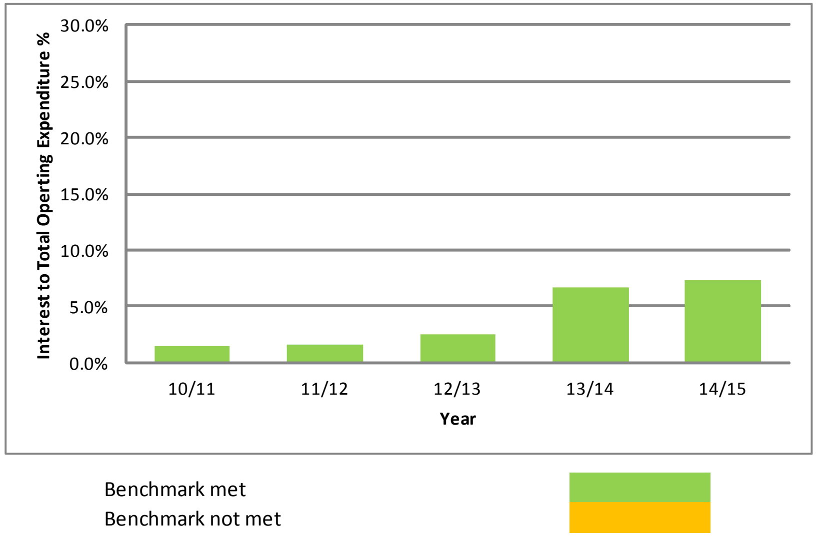
b) Council loan funding will not exceed a debt to debt equity ratio of 28%.

Graphs are provided below for each of these borrowing limits.

Borrowing limit debt to debt equity ratio



Borrowing limit interest expense to operating expenditure

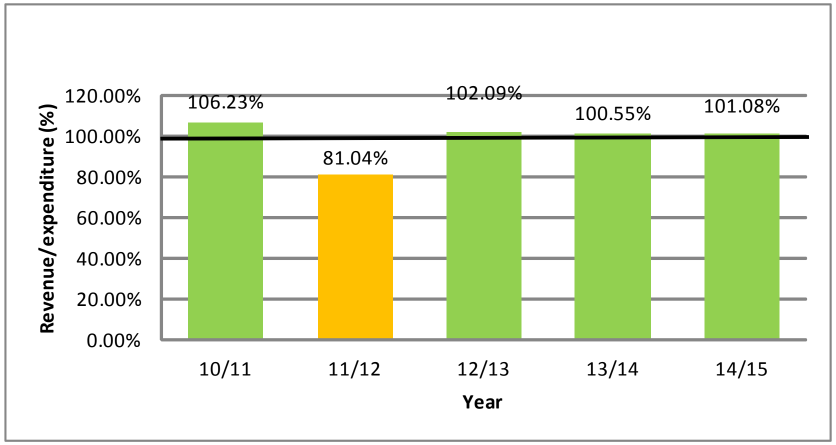


The graphs (left) establish that each of the five years presented are well within the borrowing limits. Annuity costs paid to ACC for the capitalisation of Napier leasehold property cashflows for a 50 year period are included for 2013-14 ($1.7 million) and 2014-15 ($1.7 million).

3. Balanced Budget Benchmark

"The Council meets this benchmark if its revenue equals or is greater than its operating expenses."

The following graph displays the Council's revenue (excluding development contributions), financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment, as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant or equipment).



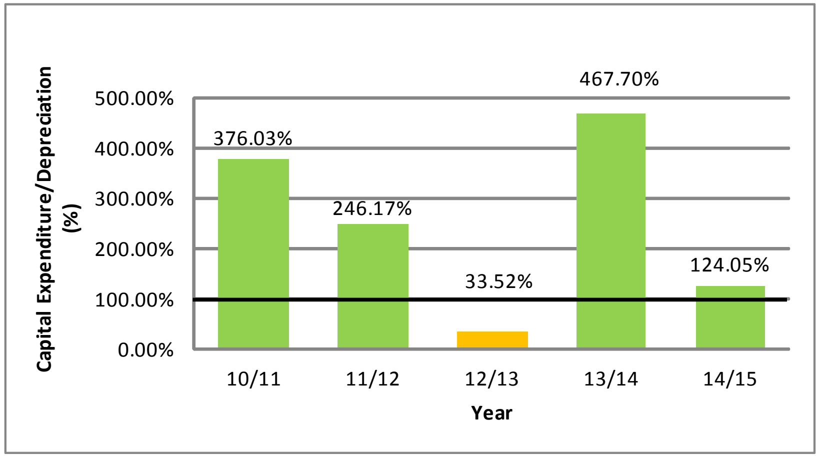
Benchmark met
Benchmark not met

In 2011-12 Council did not achieve a balanced budget as there was a large fair value loss of $6 million due to the discounting of the Napier leasehold land and this increased the expenditure for the year.

4. Essential Services Benchmark

"The Council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services."

The following graph displays Council's capital expenditure on network services as a proportion of deprecation on network services - *(NB: Council has only one network service and that covers the flood and drainage schemes):*



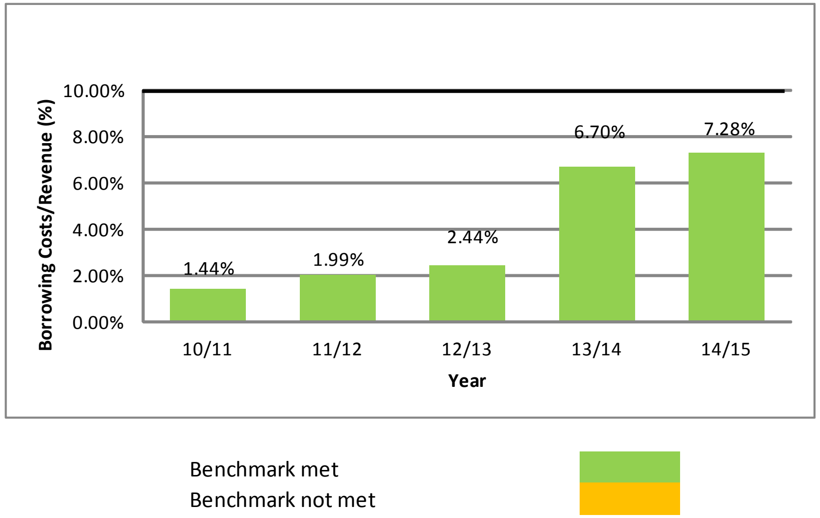
Benchmark met
Benchmark not met

Council has met this benchmark for all the years except 2012-13 where due to the timing of the work plan there was less done on the flood and drainage schemes and more focus on the cycleway infrastructure work which is not included in this benchmark. For years when the expenditure on flood and drainage schemes has exceeded the depreciation set-aside for such schemes, the additional funding in excess of depreciation has been met from scheme reserves and borrowings.

5. Debt Servicing Benchmark

"The Council meets the debt servicing benchmark if its borrowing costs are equal or less than 10% of its revenue."

The following graph displays the Council's borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations on property, plant and equipment).

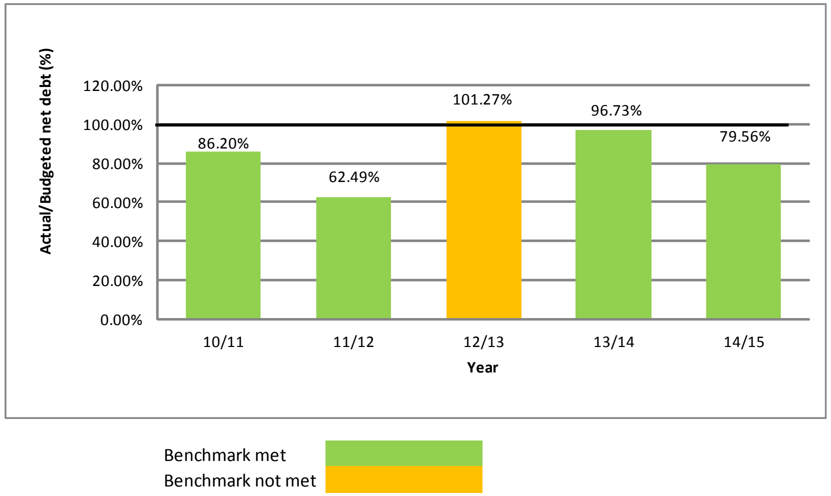


Council has met the benchmark for all years included in the above graph. Annuity costs paid to ACC for the capitalisation of Napier leasehold property cashflows for a 50 year period are included for 2013-14 ($1.7 million) and 2014-15 ($1.7 million).

6. Debt Control Benchmark

"The Council meets the debt control benchmark if its actual net debt equals or is less than its planned net debt."

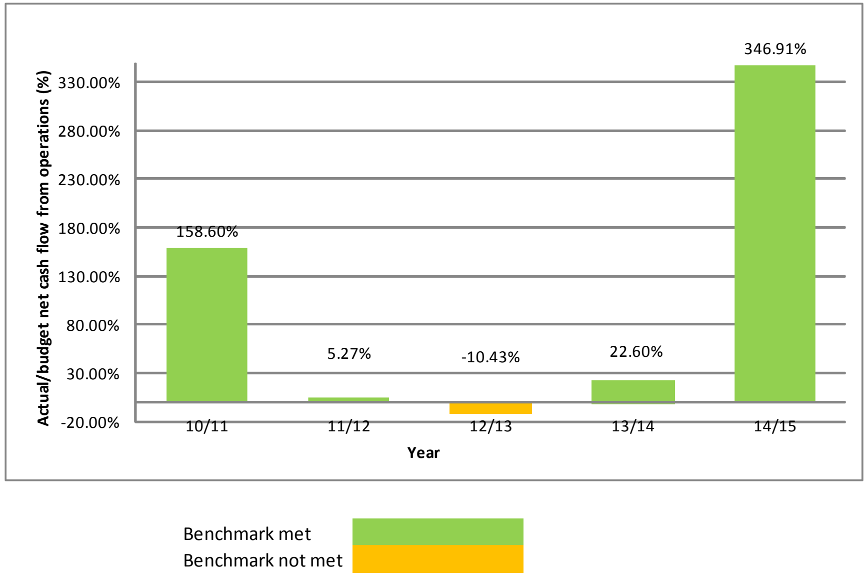
The following graph displays the Council's actual net debt as a proportion of planned net debt. In this statement, **net** debt means financial liabilities less financial assets (excluding trade and other receivables).



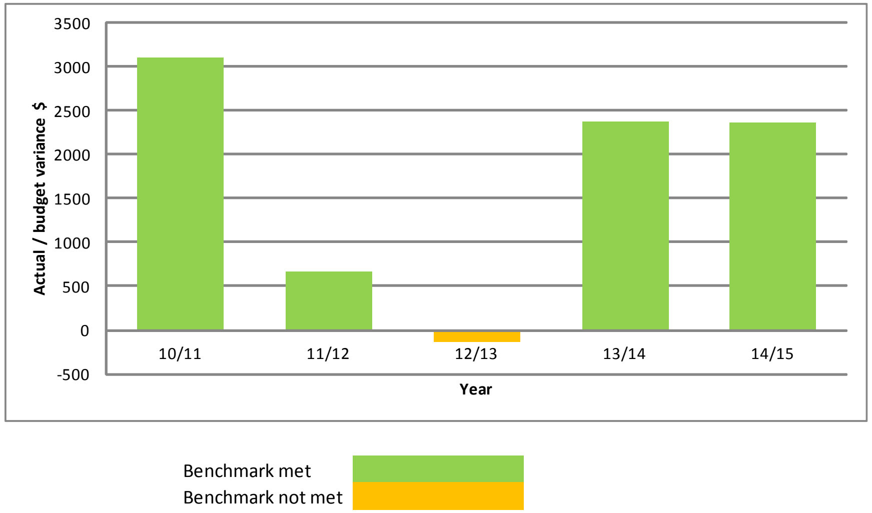
Council has met the benchmark in all of the years except 2012-13 when the percentage is shown as 1.27% over the benchmark.

7. Operations Control Benchmark

"The Council meets the operations control benchmark if its actual net cash flow from operations equals or is greater than its planned net cash flow from operations."



The following graph displays the Council's variance between actual and budgeted net cash flow from operations.



Council has met this benchmark (i.e. actual net cash flow from operations has exceeded planned levels) for all the years (other than 2012-13). These variations in operating cash balances use LTP budgets as compared with actual cash balances.