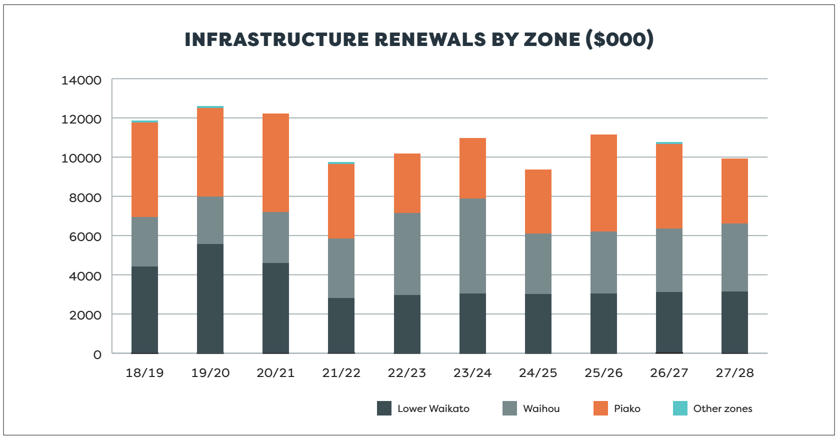
FUNDING DEPRECIATION OF OUR ASSETS

WHAKAMAHI PŪTEA HEKENGA RAWA

One option to help reduce the rate increase is to not fully fund depreciation of our assets for the first two years of this LTP.

Depreciation is the tool we use to spread the cost of an asset over its life, which could be up to 100 years. Spreading the cost means all users pay for the asset over its life, rather than the burden falling on just those who pay rates when the asset needs replacing.

To do this we would borrow more to maintain our assets, and make up the funding shortfall in year three of the plan. There are additional costs to borrow more, but we believe this is outweighed by reducing the increase to affected ratepayers in the first year.



Expected spend on maintaining our current assets over the life of this plan for each zone.

We are only proposing to do this in the Lower Waikato and Waihou Piako catchments. If you live in these areas, you will still see a rate increase in year 1, but it will be lower than if we fully funded depreciation. It will also mean you'll be locked into rates increases in years 2 and 3 so we can recover the full amount to fund the assets.

What do you think about this approach?

OPTION 1

Status quo – fully fund depreciation as we go

This will mean large rates increases in year 1 for some ratepayers in Lower Waikato, Waihou and Piako catchments.

Impact on levels of service: Nil

Impact on rates: Catchment rates only

Lower Waikato	Waihou	Piako
2018/19 – 27%	2018/19 – 11%	2018/19 – 24%
2019/20 – 23%	2019/20 – 9%	2019/20 – 17%
2020/21 – 7%	2020/21 – 0%	2020/21 – 4%

PREFERRED OPTION

OPTION 2

Don't fully fund depreciation in years 1 and 2

The rates increases will be spread over three years, meaning a lower rates increase in year 1. However, ratepayers will be locked into increases in years 2 and 3.

Impact on levels of service: Nil

Impact on rates: Catchment rates only

Lower Waikato	Waihou	Piako
2018/19 – 17%	2018/19 – 8%	2018/19 – 18%
2019/20 – 25%	2019/20 – 9%	2019/20 – 17%
2020/21 – 25%	2020/21 – 8%	2020/21 – 18%