

# Long Term Plan 2021-31

## Mahere pae tawhiti



PART 8

## Appendices

Planning Assumptions



SECURING **TODAY**. SHAPING **TOMORROW**. STRONG **FUTURE**.

## Planning assumptions

In developing this plan, we make assumptions about the future of the activities we provide, assets we hold, issues that affect us, cost forecast and our ability to deliver our services. This section sets out the significant forecasting assumptions we've made and associated risks that apply to Council-wide decisions.

### Infrastructure assumptions

| Assumption   | Implication   | Source  | Likelihood | Impact on financials |
|--|---|---|------------|----------------------|
| Not enough will be known about the government Three Waters Reform to be able to plan for anything other than status quo for three waters ownership and service delivery  | Government sponsored reform to the provision of three waters services to local communities is underway. The exact form of the changes is under development through a consultation process between central government and TLA's. Once known, the Infrastructure Strategy will require review to reflect those changes. | Initial central government advice   | High       | Extreme              |
| Waka Kotahi road funding rate will be fixed at 64% for each year of the ten years of the LTP.  | Council's share for the land transport programme has been budgeted as income in the LTP.  | Waka Kotahi 2021-24 NLTP Funding Assistance Rates – National Land Transport Programme | Medium     | Medium               |
| Waka Kotahi has capped the total amount of subsidy available to SWDC at \$20m over the first three years of the LTP. The assumption has been made that the subsidy available for the last 7 years of the LTP will return to previous levels. | Waka Kotahi's subsidy for the last seven years of the LTP has remained at similar levels to 2020/21.  | LTP 2018-28   | Medium     | High                 |
| No major individual assets or asset groups (outside normal replacement) sales are planned.   | Ongoing maintenance and renewal costs.  | Initial central government advice   | High       | Status quo           |

| Assumption   | Implication  | Source  | Likelihood                                      | Impact on financials   |
|--|--|---|---|--|
| An assumption on Pensioner Housing ownership will be developed during this LTP.  | Potential realisation of sale or lease income during the LTP.  | LTP 2018-28   | Definite  | High   |
| Asset data assumptions contained in our asset management systems are valid. While the asset management information system is reliable for the land transport activity, improvements in the confidence of the three waters data will be the focus for this LTP. | Medium risk - accurate and timely data to support renewal programme. This may result in unbudgeted expenditure to replace assets sooner than expected.<br>Low risk for land transport.   | Asset Management Plans  | Medium  | Asset management improvement programme will require an increase to previously restricted budget. |
| Construction cost<br>Use the BERL indices for capital and maintenance cost movement  | During the annual plan process there is the opportunity to reassess forecasted budgets. This is an opportunity to mitigate the effects of this risk. Every three years during the LTP the budgets are reassessed and adjusted taking into account prevailing costs and BERL forecasts for inflation. | BERL  | Low   | Increase in budget to offset construction indices  |
| Operational and Maintenance costs<br>Use the BERL indices for operating and maintenance cost movement  | Inflation factors have been applied to budgets over the next 30 years.   | BERL  | Low   | Increase in budget to offset construction indices  |
| Assumed lives of assets are reasonable   | Risk that pipeline asset lives are inaccurate. Life can be modified based on condition assessments and performance. Most of the buried pipeline networks have not been condition assessed and some pipes may need renewing sooner than forecasted.   | Based on industry standard design life and are best assessment of life currently available. | Buried Pipelines - Medium<br>Other assets - Low | Minimum financial impact   |
| Natural Disasters<br>that there is no large natural disaster that requires additional funding to reinstate assets.   | There is a low risk of a natural disaster occurring during the 30-year period which may require additional funding to reinstate assets.  | Asset Management Plans  | Low   | Insurance cover is in place to manage the risk of natural disasters.                             |

| Assumption   | Implication  | Source                            | Likelihood | Impact on financials  |
|--|--|-----------------------------------|------------|---|
| Pandemics<br>that there are no pandemic events which require additional funding to reinstate assets or to delay projects / programmes.   | There is a medium risk of a continuation of COVID-19 and/or a recurrence of another global pandemic which affects programme activity   | Crisis Management Plan            | Medium     | Slippage and/or increased costs of re-planning  |
| Resources<br>Adequate resources available to deliver programme of work   | The current situation with COVID-19 is impacting the ability of some work to be completed on time due to restrictions in place. Council is planning on the basis that staff will be available to carry out assigned duties and contractors are available and able to provide services. | Business Continuity Plans         | Medium     | If the COVID-19 Alert Levels change then timeframes for some projects may need to be revised. |
| Climate change<br>The effects of climate change will be low over the planning period   | The likely effects of climate change have been factored into our forward planning of our infrastructure.   | 30-year Infrastructure Strategy   | Low        | Low   |
| Growth in Demand<br>Population growth is expected during the period of the Long Term Plan. It is assumed that the "urban areas" will experience the following growth:<br>Tokoroa 0.3%<br>Putāruru 1.0%<br>Tīrau 1.0%<br>Arapuni 1.0% | Potential changes in demands due to population increase has been analysed and factored into our renewals and new assets programs.  | SWDC Population Projection Report | Low        | Low   |
| Changes to level of service<br>Expected changes to level of service are expected to be minor   | Significant change to the level of service will require a review of the Council's operating and capital budgets and may have implications for Council's infrastructure strategy to assess the impact on infrastructure.  | Council                           | Low        | Low   |
| Council policy<br>No significant policy changes that impact on assets.   | Any significant policy change that impacts assets will trigger a review of the infrastructure strategy. The impact of future District Plan changes is deemed to have a minimal impact on assets at this point.   | Council                           | Low        | Low   |

| Assumption   | Implication  | Source                        | Likelihood      | Impact on financials |
|--|--|-------------------------------|-----------------|----------------------|
| <p>South Waikato have a slightly older average age of our population (37.9 years) than the national average (37.4 years) with our Māori population being younger (24.6 years) than the national average (25.4 years) and we anticipate that this will remain over this LTP period.</p>                                     | <p>Smaller working populations and a higher need for age friendly services and infrastructure.</p> | <p>Statistics New Zealand</p> | <p>High</p>     | <p>Medium</p>        |
| <p>Council holds industrial and residential land and some buildings that have been purchased as part of our programme to stimulate Economic Development in the future. It is anticipated that some of these properties and other property and land will be purchased, developed and sold during the period of the LTP.</p> | <p>Money is budgeted for the purchase, sale and development of current land and property.</p>      | <p>LTP 2018-28</p>            | <p>Definite</p> | <p>High</p>          |

## Financial assumptions

| Assumption  | Implication   | Source     | Likelihood | Impact on financials |
|---|---|------------|------------|----------------------|
| Council staffing (head count) remains similar to current levels   | Any increase in head count would increase overheads and require the need for more operating costs (eg. in Information Services)   |            | Medium     | Low                  |
| Contractor (head count) remains static  | Any increase in contractors using Council systems would increase software, and operating costs.   | IS Manager | Medium     | Low                  |
| Information Services. Engagement, Communication and Project Management costs are included within programme budgets  | Provide for better forecasting and allocation of resources.   |            | Medium     | Low                  |
| Business Improvement activities will increase automation and efficiency. This will reduce resources needed to provide information for Council decision-making. Increased data availability, accuracy and relevance; improved information security and record-keeping<br>Reduction in Overhead Recovery for IS budgets.<br>Increase in Project costs (capital) | Projects will be funded for record-keeping, impact (business analysis), training, development, and technical project management   | IS Manager | High       | Low                  |
| The cost of energy is going to increase.  | This will have financial impacts on Council's operations, this is likely to impact on the cost of roading and the provision of drinking water, the disposal of waste, and the operation of Council's swimming pools and event centre. | BERL       |            | Low                  |

| Assumption  | Implication   | Source | Likelihood | Impact on financials |
|---|---|--------|------------|----------------------|
| Inflation on operating costs will be:<br>2021-22: 2.4%<br>2022-23: 2.3%<br>2023-24: 2.1%<br>2024-25: 2.2%<br>2025-26: 2.2%<br>2026-27: 2.2%<br>2027-28: 2.2%<br>2028-29: 2.2%<br>2029-30: 2.2%<br>2030-31: 2.1% | This will impact on Council's operating costs   | BERL   | High       | High                 |
| Interest on borrowing will be:<br>2020-31: 1.8%   | If the cost of servicing interest is significantly different than what was projected, then this will impose an additional burden on ratepayers. |        |            | Moderate             |
| Inflation on capital costs will be:<br>2021-22: 2.5%<br>2022-23: 2.4%<br>2023-24: 2.2%<br>2024-25: 2.3%<br>2025-26: 2.3%<br>2026-27: 2.2%<br>2027-28: 2.3%<br>2028-29: 2.3%<br>2029-30: 2.4%<br>2030-31: 2.2%   | This will impact on Council's operating costs   | BERL   | High       | High                 |
| Earning on investment income will be:<br>2030-31: 4%  | This impacts how much we earn on our asset replacement reserves.  |        | High       | Low                  |

| Assumption   | Implication  | Source                 | Likelihood                                       | Impact on financials |
|--|--|------------------------|--|----------------------|
| Council will revalue its land and buildings and most classes of infrastructural assets on a 3-yearly basis.  | Revaluation increments could either differ in value from the estimates in this model, or the timing could differ due to the fair value requirement of the accounting standards. Either of these situations will result in the Statement of Financial Position values differing from expectation and there will be flow-on impact on the levels of depreciation expense which are generally rates funded. | BERL - inflation       | Moderate   | Moderate             |
| Capital projects will be completed when predicted in the Asset Management Plans.   | If capital projects are not completed when predicted ie if they have to be brought forward or delayed, then there are significant financial implications.  | Asset Management Plans | Low in the early years, moderate in later years. | Low/Moderate         |
| Where applicable, an averaged life estimate has been used to calculate depreciation on a capitalised project. Where the asset is large and can be broken down into its sub-components, the asset will most likely be componentised with specific estimates attached to those sub-components. | This might change the level of depreciation / asset replacement rate funding required. Of larger significance is the potential for Council to move to a forecasted asset replacement funding model where we look to accumulate the enough funds to fully fund future asset replacements.   | Averaged asset lives   | High   | High                 |



## Economic and rating trends assumptions

| Assumption   | Implication  | Source   | Likelihood | Impact on financials  |
|--|--|--|------------|---|
| Foreign Exchange fluctuations are negligible over the life of the LTP (ie, there is no net For Exchange / shift in NZD value relative to world currencies) over the life of the LTP  | Fluctuations in (for example) NZD-USD rates affect imports, cloud services and other technology  |  | Low        | Assumed to be nil   |
| With the expected increase in population, subdivision and building development will no longer continue to be minimal and irregular.  | There is likely to be a material increase in the number of rateable properties or ratepayers each year.  |  | High       | Moderate to High. Council is planning for the infrastructure requirements for more residential development in Putāruru and growth in our other towns. |
| That the number of rating units in the District will increase during the period of this LTP from 10,193 to 10,643 by 2030-31   | The number of rating units will increase over the period of the Long Term Plan   | Calculation of subdivision resulting from new dwelling demand based on population projection during the LTP period | High       | Moderate  |
| Actual impact of Healthy Rivers Wai Ora Waikato Regional Plan Change is assumed to not impact Council operations or ratepayers and users' ability to pay for services  | There could be significant adverse impacts on economy of the District and the ability to use land productively from the rules created by the Healthy Rivers Wai Ora Waikato Regional Plan Change | Central and Regional Government  | High       | Medium  |
| That the 2021 rating revaluation will result in a 10% increase in the capital value of the District. However, the increase in capital value will not be spread evenly over the various property types. For example a 50% CV increase on residential properties but a 8% decrease on dairy farm properties. | The 2021 rating revaluation will cause substantial variation in rates changes for different types of property when the revaluation results are used in year 2 of the Long Term Plan              | Data from Valuation Service Providers as at December 2020.   | High       | No impact on total rates revenue or financials. But a significant impact on majority of ratepayers  |

## Other assumptions

| Assumption  | Implication  | Source  | Likelihood | Impact on financials |
|---|--|---|------------|----------------------|
| Population growth is expected during the period of this Long-Term Plan. It is assumed that the District will experience an increase of 1% per annum for Tīrau, Putāruru and Arapuni and 0.3% for Tokoroa. Business zone growth is also planned. | There will be an increase in demand for services and a potential increase in the rating base. There is also a need to review our District Plan and plan for additional infrastructure to cope with new residential development.  | Asset Management Plans identify the need for new major capital expenditure. | Moderate   | High                 |
| Legislation will continue to change   | Council will continue to have increased mandate and community expectation with likely no additional central government funding   | Central Government  | High       | Moderate             |
| Levels of service expectation and difficulties in community enforcement will continue to rise due to societal change  | Move from reactive to proactive shift and increased legal challenges may be necessary and health and safety issues for staff may escalate eg greater Building Act exemptions places obligation on owner similar to Food Act audits – risk and TA control minimal, aggression and noncompliance towards field staff, increase in ombudsmen escalation | Central Government  | Moderate   | Moderate             |
| There will be continued actual impact on the South Waikato due to COVID-19  | Ongoing adverse effects to District yet to be fully quantified and consequences to Council activity largely unknown.<br><br>No change in resources are budgeted for this. Resources are reallocated as require and other risk management work is not undertaken  | National Civil Defence Support Agencies                                     | Moderate   | Moderate             |

| Assumption  | Implication   | Source        | Likelihood | Impact on financials |
|---|---|---------------|------------|----------------------|
| <b>There will be no major environmental or civil defence events which could impact on the District and/or Council operations.</b> | If a major environmental event does occur, then the impacts have not been provided for in the budgets or Council's work programme | Civil Defence | Moderate   | Moderate             |