

## INTRODUCTION

In preparing forecasts, both financial and non-financial, there is a need to provide assumptions to address the uncertainties of the future. This is important for a number of reasons, including:

- allowing readers of the forecasts to understand the basis that financial information has been prepared on;
- providing a means of explaining differences that will inevitably occur between the actual result and that which was forecast; and,
- ensuring risks faced by the organisation in the future have been appropriately identified and evaluated.

The purpose of this section is to:

- comment on the process used to develop assumptions;
- analyse legislation;
- understand best practice;
- set out the major assumptions; and,
- outline any continuous improvement that may be required.

## SUMMARY OF SIGNIFICANT ASSUMPTIONS

The following assumptions have been used in preparation of estimated financial statements in this Long-term Plan:

ASSUMPTIONS, RISKS AND UNCERTAINTIES FOR 2021-2031 LONG-TERM PLAN RISK ASSESSMENT MATRIX					
No.	Assumption	Likelihood	Consequence	Overall Risk	Responsibility
1	Pandemic	Likely	Major	Major	Thomas
2	Asset lives	Unlikely	Minor	Low	Thomas
3	Growth assumptions	Possible	Minor	Moderate	JP
4	Cost growth	Possible	Medium	Moderate	Thomas
5	Subsidy rate	Likely	Medium	Moderate	Thomas
6	Asset revaluations	Possible	Medium	Moderate	Thomas
7	Return on investments	Unlikely	Minor	Negligible	Thomas
8	Interest on borrowing	Possible	Medium	Medium	Thomas
9	Resource consents/designations	Possible	Medium	Moderate	Jocelyn
10	Renewability of debt funding	Very unlikely	Medium	Moderate	Thomas
11	Local Government Reform	Likely	Medium	Moderate	Oonagh
12	Legislative demands on council resources	Possible	Medium	Moderate	JP
13	Information technology disasters	Possible	Medium	Moderate	Thomas
14	Local natural disaster	Unlikely	Major	Low	Stavros
15	Climate change	Possible	Medium	Medium	JP
16	Emissions trading scheme	Possible	Minor	Low	Stavros
17	Insurance	Possible	Medium	Low	Thomas
18	Other Revenue	Possible	Minor	Low	Thomas
19	External funding for major capital projects	Possible	Medium	Moderate	Thomas
20	Societal change	Unlikely	Minor	Low	JP
21	Sources of funds for future replacement of significant assets	Possible	Medium	Low	Thomas

22	Total number of rating units	Likely	Medium	Moderate	Thomas
23	Investment partners	Likely	Medium	Low	JP
24	Water reform	Likely	Major	Major	Stavros/Thomas

## FORECASTING ASSUMPTIONS COMMENTARY

1	<b>Pandemic</b>																		
	<p><b>ASSUMPTION</b></p> <p><b>RISK</b></p> <p><b>RISK ASSESSMENT</b></p>																		
2	<b>Asset Lives</b>																		
	<p><b>ASSUMPTION</b></p> <p>Council holds a number of assets that are significant to its operations and provision of services. These include assets related to water supplies, waste water, parks and reserves, stormwater, airport, roads, library, museum, events venues, buildings, plant and equipment. The assumption is that assets will function as expected for the duration of their estimated useful lives. The useful lives of these assets are referred to in the Statement of Accounting Policies and summarised in the table below:</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th></th> <th style="text-align: center;">YEARS</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Water Supplies</td> <td style="text-align: center;">5 to 130</td> </tr> <tr> <td style="text-align: center;">Waste Water</td> <td style="text-align: center;">5 to 140</td> </tr> <tr> <td style="text-align: center;">Parks and Reserves</td> <td style="text-align: center;">5 to 100</td> </tr> <tr> <td style="text-align: center;">Stormwater</td> <td style="text-align: center;">10 to 130</td> </tr> <tr> <td style="text-align: center;">Roads</td> <td style="text-align: center;">7 to 100</td> </tr> <tr> <td style="text-align: center;">Buildings</td> <td style="text-align: center;">2 to 80</td> </tr> <tr> <td style="text-align: center;">Plant and Equipment</td> <td style="text-align: center;">10 to 20</td> </tr> <tr> <td style="text-align: center;">Landfill</td> <td style="text-align: center;">3 to 100</td> </tr> </tbody> </table> <p><b>RISK</b></p> <p>The risk is that the assets will not last as long as forecast and will need replacement earlier than planned. This would require the funding of replacements to also be brought forward. One option may be to see if other replacements could be delayed to avoid having to increase the rates required to fund this. Council's modeling does not depreciate assets until the year after capitalisation. However if not, then rates would increase in the year of the replacement, but not be required in the year the replacement was planned, so it is only a timing issue. Additional costs associated with the timing and lives of assets would be an interest component and/or depreciation component impacting rates and/or debt. For every \$1 million movement in debt there would be an approximate interest impact of \$40,000.</p> <p><b>RISK ASSESSMENT</b></p> <p>Asset management plans are in place for these assets, and professionally qualified staff and consultants have been engaged over the years to advice on this risk. The risk is now well understood and considered to be low.</p>		YEARS	Water Supplies	5 to 130	Waste Water	5 to 140	Parks and Reserves	5 to 100	Stormwater	10 to 130	Roads	7 to 100	Buildings	2 to 80	Plant and Equipment	10 to 20	Landfill	3 to 100
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3	<b>Growth</b>																								
	<p><b>ASSUMPTION</b></p> <p>Council has used Infometrics growth assumptions for its planning.</p> <p>This approach is intended to minimise the risks for each planning horizon. Council has assumed the largest land area demand and infrastructure requirements over the 30-year horizon, but has assumed a lower level of revenue over the 10-year horizon.</p> <p>Council has decided to make a projection in line with the Infometrics target of approx. 4,000 new residential dwellings over the ten-year period. Simply put, this assumes that existing housing stock is now fully utilised and that new housing supply is constraining further population growth.</p> <p><b>CONTEXT</b></p> <p>The last three years has seen strong population growth for the Rotorua District.</p> <table border="1" data-bbox="204 618 855 936"> <thead> <tr> <th colspan="4"><b>STATS NZ: RESIDENT POPULATION ESTIMATE; ROTORUA DISTRICT</b></th> </tr> <tr> <th>Year to June</th> <th>Population</th> <th>Change</th> <th>% Change</th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>73,700</td> <td>1,400</td> <td>1.90%</td> </tr> <tr> <td>2018</td> <td>74,800</td> <td>1,100</td> <td>1.50%</td> </tr> <tr> <td>2019</td> <td>75,800</td> <td>1,000</td> <td>1.30%</td> </tr> <tr> <td>2020</td> <td>77,300</td> <td>1,500</td> <td>2.00%</td> </tr> </tbody> </table> <p>This has created pressure on the housing market to the point where housing supply is likely constraining further growth for the district. A number of actions are underway (including the Housing Accord) to ensure there is sufficient land available for future residential and commercial development.</p> <p><b>30 YEAR GROWTH ASSUMPTIONS</b></p> <p>The Infrastructure Plan uses the Infometrics growth assumptions for its planning.</p> <p>Unrestrained projections assume population growth in market conditions where all demand is supplied (i.e. demand for employment, housing, business and industrial buildings etc).</p> <p>Detailed modelling determined the land (residential, commercial and industrial) and the associated infrastructure requirements for this projection. Analysis against existing zoned land revealed additional residential and a greater variety of industrial land was required to ensure that land supply did not constrain future economic and population growth.</p> <p>The analysis also established that in the short term, infrastructure can accommodate growth because variety of different land areas around Rotorua support distributed growth and potentially delay infrastructure investment as existing capacity is used first. This underpins the Asset Management Plans infrastructure catchment areas (eg. water supplies) and the 30 Year Infrastructure Strategy.</p>	<b>STATS NZ: RESIDENT POPULATION ESTIMATE; ROTORUA DISTRICT</b>				Year to June	Population	Change	% Change	2017	73,700	1,400	1.90%	2018	74,800	1,100	1.50%	2019	75,800	1,000	1.30%	2020	77,300	1,500	2.00%
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4	<b>Cost growth</b>																								
	<p><b>ASSUMPTION</b></p>																								

YEARS ENDING 30 JUNE:	LAND AND PROPERTY	ROADS	WATER	OPERATING - LGCI STAFF (%)	OPERATING - LGCI OTHER (%)
2022					
2023					
2024					
2025	2.7	2.9	2.7	3.0	2.5
2026	2.9	2.9	2.9	3.0	2.5
2027	2.8	2.9	2.8	3.0	2.5
2028	3.2	2.9	3.2	3.0	2.6
2029	3.3	2.9	3.3	3.0	2.7
2030	3.4	2.9	3.4	3.0	2.7
2031	3.1	2.9	3.1	3.0	2.6

The Reserve Bank Act requires that price stability be defined and negotiated between the government and the Reserve Bank. This is called the Policy Targets Agreement (PTA) and defines price stability as annual increases in the Consumers Price Index (CPI) of between 1 and 3 percent on average over the medium term, with a focus on keeping future average inflation near the 2 percent target midpoint. The inflation assumption currently used by Treasury after five years is the mid-point of the RBNZ target range of 1.0% pa to 3.0% pa, being 2.0% pa. History has shown that 2.5% (0.5% above midpoint) is a probable outcome, typically, in the shorter term. However, the Monetary Policy Committee noted in its November 2020 summary that due to COVID-19 inflation (and employment) are expected to remain subdued for a prolonged time. The Business and Economic Research Limited (BERL) price change estimates are shown above for the major areas used in this Long-term Plan (% are per annum change).

## RISK

That prices rise higher than the assumptions built into the plan. Higher than expected inflation will result in higher rates increase or a reduction in service levels if overall pools of funds for capital spend are not altered.

A lower inflation factor will allow a lower than planned rates increase or reduction of debt. The effect of this would be as follows - for \$100 million of costs a 1% increase would mean a \$1 million increase in costs.

## RISK ASSESSMENT

A number of factors will affect economic performance and certainty around these cost factors is difficult to judge. BERL has had many years of experience in providing cost adjusters to local government and is the best known resource available. However, with volatility within the global economy, currently the risk is considered moderate.

5

## Subsidy rate

### ASSUMPTION

Council receives subsidies from New Zealand Transport Agency (NZTA) for local roads within the district, of 56%. This subsidy comes from road user charges and petrol tax, and is allocated to roading projects at the rates listed below, depending on the type of project.

FINANCIAL ASSISTANCE RATES	%
Year 1 -2021	56
Year 2 – 2022	56
Year 3 - 2023	56

It is assumed that the projects in the Long-term Plan will be subsidised at these rates.

## RISK

The risk is that transport projects included in the Long-term Plan will not be approved by NZTA due to lack of funds or the subsidy rates are reviewed down. This would result in a shortfall in funding for planned projects. The largest risk is around renewals and maintenance, so if the subsidy is reduced, the level of service for renewals and maintenance would be reviewed and reduced to fit the budget.

	<p><b>RISK ASSESSMENT</b></p> <p>Financial assistance rates (FAR) have been reviewed and are now set for the next three years. Therefore, risk is currently considered moderate.</p>																				
6	<b>Asset revaluations</b>																				
	<p><b>MODELLING PARAMETER</b></p> <p>A three-year rolling cycle valuation has been modelled using the inflation factors in the cost growth section above. The three-year cycle was determined from the latest asset class revaluations in the 2020 Annual Report.</p> <p><b>RISK</b></p> <p>The risk is that asset values over the period of the plan are significantly different to the estimated increases in the Long-term Plan.</p> <p><b>RISK ASSESSMENT</b></p> <p>The modelling assumption aligns with the accounting practice of revaluation of particular assets classes on a three year rolling cycle. Adopting this approach enables Council to better forecast the potential replacement and maintenance costs of these assets and minimise any material impacts on future planned rates increases. Risk is considered moderate.</p>																				
7	<b>Return on Investment</b>																				
	<p><b>ASSUMPTION</b></p> <p>It is assumed material cash investments will net 1% return on short term cash investments over the duration of the Long-term Plan. Although the interest earned on short term cash investments will fluctuate considerably over the 10 years, it is not considered material and so a single assumption for all of the ten years has been used.</p> <p><b>RISK</b></p> <p>The risk is that Council will obtain lower returns on its cash investments.</p> <p><b>RISK ASSESSMENT</b></p> <p>As Council has minimal investments, this risk considered negligible.</p>																				
8	<b>Interest on Borrowing</b>																				
	<p><b>ASSUMPTION</b></p> <p>Council has an actual portfolio of fixed interest rate debt that matures at various times over the next 10 years. Taking into account the current economic state, the interest rate on the cost of borrowing for the Long-term Plan is as follows.</p> <table border="1" data-bbox="199 1460 722 1948"> <thead> <tr> <th>YEAR</th> <th>INTEREST RATE</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>3.10%</td> </tr> <tr> <td>2022</td> <td>2.80%</td> </tr> <tr> <td>2023</td> <td>2.68%</td> </tr> <tr> <td>2024</td> <td>2.80%</td> </tr> <tr> <td>2025</td> <td>2.86%</td> </tr> <tr> <td>2026</td> <td>2.92%</td> </tr> <tr> <td>2027</td> <td>3.00%</td> </tr> <tr> <td>2028</td> <td>3.10%</td> </tr> <tr> <td>2029-31</td> <td>3.70%</td> </tr> </tbody> </table>	YEAR	INTEREST RATE	2021	3.10%	2022	2.80%	2023	2.68%	2024	2.80%	2025	2.86%	2026	2.92%	2027	3.00%	2028	3.10%	2029-31	3.70%
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	<p><b>RISK</b></p> <p>The risk is that interest rates will be in excess of the assumptions. A movement in interest rates of 0.5% on debt of \$100 million is \$500,000</p> <p><b>RISK ASSESSMENT</b></p> <p>Council has a Treasury Management Group (TMG) which includes external experts. The TMG meets regularly to closely monitor council's levels and profile of debt as well as keeping up to date with global and local economic indicators. This has proved to be successful with council achieving average interest rates within the industry. So despite the close monitoring and good controls in place, the risk is still considered medium in longer run due to the volatility and unpredictability of the many factors that can affect interest rates.</p>
9	<p><b>Resource Consents / Designations</b></p>
	<p><b>ASSUMPTION</b></p> <p>Council will need to apply for numerous resource consents, designations etc., for new projects over the Long-term Plan. Major activities that will require consents (or district plan change) include landfill, Wastewater discharge, Wastewater treatment plant and the Lakefront Redevelopment project. It is assumed that all necessary consents will be granted when required with reasonable conditions.</p> <p><b>RISK</b></p> <p>The risk is that consents will take longer to be granted and therefore not be available at the time assumed within the Long-term Plan for commencement of the development; will include conditions that are more onerous than anticipated and the development becomes substantially more expensive, potentially to the extent that it becomes uneconomic to proceed or are not granted.</p> <p><b>RISK ASSESSMENT</b></p> <p>In deciding on and costing projects for the Long-term Plan, Council is well aware of the requirements to meet resource consent requirements; however the risk is around notified consents that could be appealed in the Environment court. This has the possibility to make the consent process both costly and long. The risk is therefore considered moderate.</p>
10	<p><b>Renewability of Debt Funding</b></p>
	<p><b>ASSUMPTION</b></p> <p>It is assumed that Council's portfolio of debt, which has differing maturity dates from one to fifteen years and new funding required, will be able to be raised on favourable terms.</p> <p><b>RISK</b></p> <p>The risk is that Council will not be able to raise new debt on favourable terms. The result would mean council would have to borrow at higher than planned interest rates.</p> <p><b>RISK ASSESSMENT</b></p> <p>Local government is a very low risk to investors, second only to central government. For this reason, it is very unlikely that council will not be able to raise funds on favourable terms as and when required. Council has a comprehensive treasury policy and management practices, employs expert advice when required, has a debenture trust deed for raising loans and employs qualified staff. Habitual lenders have always shown confidence in Rotorua Lakes Council in the past and this is not likely to change. In addition, the raising of debt is structured so that less than \$75 million is required to be raised in any one year. This helps to limit Council's exposure to difficult borrowing market conditions in any one year of the Long-term Plan. This risk is considered moderate.</p>
11	<p><b>Local Government Reform/Central Government Collaboration</b></p>
	<p><b>ASSUMPTION</b></p> <p>Election 2020 has provided Labour with a mandate to move at speed to implement its major policies free of interference from coalition or confidence and supply partners. Every single one of Labour's major policy initiatives directly or indirectly involves working with communities and co-opting local government as an important delivery agent (affordable housing, three waters, RMA reform).</p> <p>Local government is pivotal to this. Local council's have a major role to play in enabling the economic, social, cultural and environmental outcomes required to address the pressing local issues at a local level.</p>

	<p>Central and local government need to have a genuine dialogue with and within communities, enabling co-decision-making and co-production - essentially bringing communities into the ownership of policy development and implementation.</p> <p><b>RISK</b></p> <p>The challenge, as anyone within local government well knows, is that central government and its officials lack the basic understanding and capability required to be genuinely effective at enabling and working with communities. This is the core business of local government recognised by research and practice worldwide.</p> <p>Local government will also face the challenge of demonstrating New Zealand councils have the same capability as many of their fellows globally of working with and enabling empowered communities in ways which support the basic objectives of public policy.</p> <p><b>RISK ASSESSMENT</b></p> <p>Getting the best out of the initiatives central government wishes to pursue means getting the best out of working with and enabling communities. There is an urgent need for local government itself to understand its potential in enabling the communities and community processes needed to get the best out of central government's initiatives. This means Local Government New Zealand in particular shifting from the relative generalisations of its current Localism policy to a highly focused, informed and evidence-based approach to enabling communities. Local Government New Zealand on behalf of its member councils needs to be able to sit down with central government and say "community involvement; we can do it and this is how".</p>
12	<p><b>Legislative Demands on Council Resources</b></p>
	<p><b>ASSUMPTION</b></p> <p>Over the past decade, there has been a substantial increase in the level of delegation from central government to local government through legislative reforms. In almost all cases there has been no funding provided to develop the policy and/or deliver these new services. This has meant that the services have had to be funded from efficiency gains, local user charges, and an increase in rates, or combination of all these mechanisms. In some instances, there has been a need to increase resources, such as staff, consultants and contractors. The assumption is that any legislative reform or amendments will not require Council to assume responsibilities that require additional resources and hence additional cost.</p> <p><b>RISK</b></p> <p>The risk is that there will be significant change to legislation that will cause a material change in operations and costs.</p> <p><b>RISK ASSESSMENT</b></p> <p>Change of Government or even a change in Ministers could have an impact on this risk, therefore the risk is considered moderate.</p>
13	<p><b>Information Technology Disasters</b></p>
	<p><b>ASSUMPTION</b></p> <p>Council runs a complex business and has a statutory responsibility to capture and retain data. In addition, Council needs to be able to provide technology support for various business functions across Council. Without the support of information and communication technology (ICT) infrastructure, many of Council's services could not be provided. The assumption is, in the event of an ICT disaster, all services will continue to be provided and alternative support is available.</p> <p><b>RISK</b></p> <p>The risk is that in the event of an ICT disaster, services provided by Council will not be able to be delivered.</p> <p><b>RISK ASSESSMENT</b></p> <p>There is a range of mitigation measures adopted by Council to further reduce the likelihood of a major disaster including: a hybrid cloud strategy; a server virtualisation project that allows servers to be replicated in the event of a failure of any one of the servers; cornerstone applications are well supported by vendors to provide priority support; the infrastructure has been built with redundancy and resiliency in mind and is split over two separate locations; hardware renewal programme that ensures replacement before failure, backup systems are in place. This risk is considered low-moderate.</p>
14	<p><b>Local Natural Disaster</b></p>
	<p><b>ASSUMPTION</b></p> <p>It has been assumed that there will be no significant natural disaster during the term of the Long-term Plan</p> <p><b>RISK</b></p>

	<p>The risk is that there could be a significant natural disaster within the next ten years that is in Rotorua or close enough to Rotorua to have a major impact on our levels of service. Council's mitigating control for this is having business continuity plans in place.</p> <p><b>RISK ASSESSMENT</b></p> <p>The assessment is the chance of a catastrophic event happening is low, however the effects on the district of such catastrophic event would be major and a combination of Business Continuity Planning and Natural Disaster insurance are utilised to address such risk.</p>
15	<p><b>Climate Change</b></p>
	<p><b>ASSUMPTION</b></p> <p>Climate change is a long-term phenomenon with outcomes that are hard to predict.</p> <p>Our district has seen evidence over the last cycle of the Long-term plan (LTP) that we have experienced and will continue to experience the following severe weather events:</p> <ul style="list-style-type: none"> <li>• Increase in the amount of rainfall in large storm systems</li> <li>• Milder autumns and winters</li> <li>• Increase in above average temperature days</li> <li>• Increasing lake levels</li> <li>• Drier winters</li> <li>• Wetter summers</li> </ul> <p>As extreme weather events, increase there is the likelihood of more risks from natural hazards. Council must respond to climate change in its planning so that it can ensure a level of preparedness for any future implications and impacts of climate change and associated costs that go with this.</p> <p>However, this is planned for as an important part of Council's asset management planning which has a 30-year timeframe. We also have a climate action plan in place. The projected impacts of climate change are likely to become more noticeable toward the end of this 30-year period, particularly for water, stormwater and wastewater assets. However, they are taken into account in our long-term infrastructure planning.</p> <p><b>RISK</b></p> <p>If the impacts of climate change have a greater impact that planned for within the next 10 years the risk for Council is:</p> <ul style="list-style-type: none"> <li>• Impacts on council's assets due to greater than predicted amount of severe weather events</li> <li>• Unbudgeted costs both operational and capital due to damage to assets</li> <li>• Ultimately leading to decreased levels of service for stormwater assets.</li> </ul> <p><b>RISK ASSESSMENT</b></p> <p>If it is assumed that climate change will impact council in the future and it is adequately planned for in our planning then the risk to council is low and Council will be better able to cope with the nature, extent and timing when events do occur.</p> <p>Climate change effects have been measured and tracked for some time now and are reasonably well understood.</p> <p>Council monitors changing weather patterns and takes this into account in designing new and upgraded infrastructure. Stormwater assets have been allocated budget for both increased level of service and growth components in the CAPEX budget for this LTP.</p>
16	<p><b>Emissions Trading Scheme</b></p>
	<p><b>ASSUMPTION</b></p> <p>Council has contracted out its ETS surrender obligation at the landfill within its management contract currently entered into with Waste Management.</p> <p><b>RISK</b></p> <p>The risk is there are unknown costs associated with ETS that are not included in the Long-term Plan. ETS Price rises may reflect an increase of the Gate rate charge set by Waste Management and agreed to by Council. This could have an effect on rates required.</p> <p><b>RISK ASSESSMENT</b></p> <p>Variations in the ETS associated costs and their effects on waste cost centre have been considered in the financial model for waste services with a view towards risk mitigation. It is not expected that these costs would be material to the plan so the risk is considered low.</p>



17	<b>Insurance</b>																				
	<p><b>ASSUMPTION</b></p> <p>The insurance industry appears settled and it is assumed in the Long-term Plan that with this stability that there will be no further major cost adjustors for insurance.</p> <p><b>RISK</b></p> <p>The risk is that there could be further large adjustments in insurance that are not allowed for in the Long-term Plan.</p> <p><b>RISK ASSESSMENT</b></p> <p>If the world has another major natural disaster, there is little doubt that insurance costs will be affected, however the effects from the Christchurch and Japan earthquakes have been built into the existing premiums and the risk of further significant price increases is considered low. We continue to work with our Insurance partners to stay abreast of, or to mitigate any, material changes and to ensure appropriate levels of insurance are in place with an acceptable tolerance of risk.</p>																				
18	<b>Other Revenue</b>																				
	<p><b>ASSUMPTION</b></p> <p>The other revenue is assumed to grow by inflation for the life of the long-term plan.</p> <p><b>RISK</b></p> <p>The other revenue does not grow as assumed in the plan and that has a negative impact on surplus or deficit.</p> <p><b>RISK ASSESSMENT</b></p> <p>As inflation has been applied and other revenue is not the main source of revenue for Council the risk is considered negligible.</p>																				
19	<b>External Funding for Major Capital Projects</b>																				
	<p><b>ASSUMPTION</b></p> <table border="1"> <thead> <tr> <th>CAPITAL PROJECT DESCRIPTION</th> <th>TYPE</th> <th>BUDGET 2021 – 2031 (\$M)</th> <th>ANTICIPATED SUBSIDY</th> <th>ASSUMPTION</th> </tr> </thead> <tbody> <tr> <td>Tarawera Sewerage Scheme</td> <td>LOS</td> <td>22.50</td> <td>7.25</td> <td>\$6.5m committed by Ministry for the Environment and a further \$0.75m has been committed by the Bay of Plenty Regional Council. The remaining funding will be charged as a one off targeted rate to Tarawera residents.</td> </tr> <tr> <td>Rotorua Museum Enhancements</td> <td>LOS</td> <td>55.08</td> <td>37.54</td> <td>The Museum is an iconic building for both New Zealand and Rotorua and because of Council relationships, we have been able to secure significant funding to offset the cost to our community.  \$15m received to date with the following sponsors to provide further funding:  Ministry of Business, Innovation and Employment - \$7m  Lotteries - \$4m  Ministry of Heritage &amp; culture - \$2.5m  Rotorua Energy Charitable trust - \$10m</td> </tr> <tr> <td>Sir Howard Morrison Performing</td> <td>LOS</td> <td>11.44</td> <td>4.05</td> <td>Confirmed funding from Sir Owen Glenn - \$3m and a further ~\$1m from Rotorua Energy Charitable Trust</td> </tr> </tbody> </table>	CAPITAL PROJECT DESCRIPTION	TYPE	BUDGET 2021 – 2031 (\$M)	ANTICIPATED SUBSIDY	ASSUMPTION	Tarawera Sewerage Scheme	LOS	22.50	7.25	\$6.5m committed by Ministry for the Environment and a further \$0.75m has been committed by the Bay of Plenty Regional Council. The remaining funding will be charged as a one off targeted rate to Tarawera residents.	Rotorua Museum Enhancements	LOS	55.08	37.54	The Museum is an iconic building for both New Zealand and Rotorua and because of Council relationships, we have been able to secure significant funding to offset the cost to our community.  \$15m received to date with the following sponsors to provide further funding:  Ministry of Business, Innovation and Employment - \$7m  Lotteries - \$4m  Ministry of Heritage & culture - \$2.5m  Rotorua Energy Charitable trust - \$10m	Sir Howard Morrison Performing	LOS	11.44	4.05	Confirmed funding from Sir Owen Glenn - \$3m and a further ~\$1m from Rotorua Energy Charitable Trust
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Lakefront Development	LOS	17.30	8.31		Funding provided by the Ministry of Business, Innovation and Employment
Rotoiti/Rotoma sewerage scheme	LOS	6.00	6.45		Ministry for the Environment have committed \$3m, 50% funding for the completion of this scheme. In addition, the underspend on Lake Rotorua and Lake Okereka of \$3.45m will be provided from Bay of Plenty Regional Council
Crown Infrastructure Partnership Funding	LOS	41.70	23.70		\$7m of funding to support stormwater expansion, \$15m for the development of the Wharenui estate and a further \$1.7m to complete roading works (a total of \$5m was received with the balance in the 2020/21 financial year)
Westbrook Precinct	LOS	61.22	12.67		This project will create an iconic central sporting hub based on the key strengths of the Rotorua district.as a result council fully expects that funding can be sourced from a number of sources. Various asset (land) sales will also be required which will assist in the funding of this project (not shown in these figures).
Aquatic Centre (Option 3)	LOS	28.36	10.43		Partnership funding to be sourced to enable the completion of the commercial and destination aspects of this option

## RISK

The risk is that until subsidies can be guaranteed by the third party they may not be received as budgeted or could be lower than budgeted. This would result in a shortfall in funding for planned projects and could result in a negative impact on operating result and an increase in debt.

## RISK ASSESSMENT

If funding is not available through these sources investment by Council will continue but will be scaled back to available funding.

Prior to committing to most operating or capital programmes Council has an opportunity to ensure more certainty around funding. If the funding is, lower or not available Council can look for alternative funding options to offset, or reassess the programme spending.

This approach is intended to minimise the risk for a funding shortfall to the LTP financial strategy.

This risk is considered moderate.

20

## Societal Change

## ASSUMPTION

The Long Term Plan has been prepared taking into account the following societal trends:

- There will be an increasing proportion of Maori residents.
- Rotorua's population will become more multicultural, including increases in residents from Pacific Islands and Asia of the next twenty years.
- The number of people aged 65 and over is expected to increase over the next twenty years
- More than half of Rotorua's young people are of Maori descent and this is expected to continue although the number of young people in the district is expected to decrease over the next twenty years.

## RISK

An over or underestimation of the extent and pace of these demographic changes may result in infrastructure that does not meet the needs of the population. In these situations, planned projects could be delayed or brought forward as updated demographic projections become available.

## RISK ASSESSMENT

The Council will monitor demographic changes through census information and other economic indicators.

21

## Sources of Funds for Future Replacement of Significant Assets

**ASSUMPTION**

That adequate funding will be provided to replace assets as scheduled. The sources of funds for the replacement of assets are outlined in the Revenue and Financing Policy.

**RISK**

That a particular funding source is no longer available.

**RISK ASSESSMENT**

The Council reviews its work plan annually and the Revenue and Financing Policy every three years, alongside the LTP.

As the Council operates a central treasury function, should one source of funding be unavailable for asset replacement, a further option would be available.

This risk is low.

22

**Total number of rating units****ASSUMPTION**

The estimated growth in Rotorua's ratings units for each of the 10 years of the Long Term Plan as estimated by Infometrics:

<b>Year</b>	<b>Growth</b>	<b>Household change</b>	<b>Number of rating</b>
2021/22	1.9%	571	30,166
2022/23	1.9%	561	30,727
2023/24	1.5%	458	31,184
2024/25	1.4%	441	31,625
2025/26	1.3%	421	32,046
2026/27	1.2%	397	32,443
2027/28	1.1%	369	32,812
2028/29	0.8%	275	33,086
2029/30	0.7%	247	33,334
2030/31	0.7%	225	33,559

**RISK**

Rating units could grow at an increased rate or lower rate than projected.

**RISK ASSESSMENT**

An increase in the overall rating base could result in a decrease in rates for rating units as the total rates are spread across a larger base. If the rating base was to reduce, there could be an increase in rates. Variances between the forecast and actual growth in the rating base are likely to cause changes to the total rates revenue collected.

Council has used growth modelling and current property information from its valuation service provider to assess the level of growth in rating unites, along with an assessment of year-by-year increases from recent years and applied this modelling to the growth levels applied.

The rating base is reviewed annually when determining the rates for the year.

23	<b>Water Reforms</b>
	<p><b>ASSUMPTION</b></p> <p>The council will ensure that three water services are delivered over the life of the LTP. Council anticipates maintaining overall strategic direction, services stewardship and high level asset management responsibilities.</p> <p>The Government and representatives of the local government sector (working through the Joint Central/Local Government Three Waters Steering Committee) continue to develop the policy framework for guiding the proposed reform process. There is currently no fully developed three waters reform proposal to take to the community.</p> <p>Regardless of the outcome of any reform process, we know for an absolute certainty that communities will need drinking water, wastewater and stormwater management services. While questions such as the number of future service providers are important national water services system design questions, they may not resonate with the readers of an LTP as much as knowing what the potential cost impacts may be.</p> <p>Therefore, our communities interest is best served by Council through both:</p> <ul style="list-style-type: none"> <li>• presenting the community with a clear set of information about the likely financial impacts of providing three water services under the present ownership and delivery arrangements and the changes expected in the current and future regulatory settings; and</li> <li>• ensuring that the supporting information as well as the systems that manage the information are as robust and up-to-date as possible. RLC is able to provide any new proposed three waters service entity with all of the required information and the systems that are needed to manage the services as well as the Council's strategic expectations on how the three waters must support and promote our communities' wellbeing.</li> </ul> <p><b>RISK</b></p> <p>In the absence of a formulated proposal now, Council operates based on informed assumption. There is an inherent degree of uncertainty. This is potentially a high impact effect, especially if the proposed reforms result in three waters assets and rates setting authority being transferred to a new water service entity.</p> <p><b>RISK ASSESSMENT</b></p> <p>Three Waters reform has potential direct impacts on:</p> <ul style="list-style-type: none"> <li>• any operating revenues (as indicated in the funding impact statement for the relevant groups);</li> <li>• the direct costs of providing the activity;</li> <li>• what overhead has been allocated to the activity (refer people to the notes to the accounts for details of the methodology);</li> <li>• the value of the three waters assets (as incorporated into the balance sheet and disclosed separately as required by the Financial Reporting and Prudence regulations); and,</li> <li>• any balance sheet implications that a movement of assets, debts or revenues might have for the financial strategy.</li> </ul> <p>Disclosure: there will be probable second order impacts, which RLC will assess as part of its analysis of the proposal (when the proposal is received).</p>

**\*\*These assumptions and risks are not an exhaustive list of the assumptions and risks faced by Council and should be read in conjunction with the financial and infrastructure strategies in this chapter. These strategies contain risks and assumptions that are more specific in nature.**