

# SIGNIFICANT FORECASTING ASSUMPTIONS

## Introduction

Stratford District Council has adopted a range of forecasting assumptions which will underpin the preparation of the Long Term Plan 2024-34 (“LTP”), and which represent the most likely future scenario with the information known at present. However, the future is always uncertain and there are a number of other likely outcomes that have not been factored in. Therefore, variations from the forecasting assumptions are likely, and it is accepted that variations from the LTP over the 10 years of the plan may be material. It is expected that over the 10 years, the uncertainty increases, and that the assumptions driving the forecasts are less accurate.

## Purpose of this document

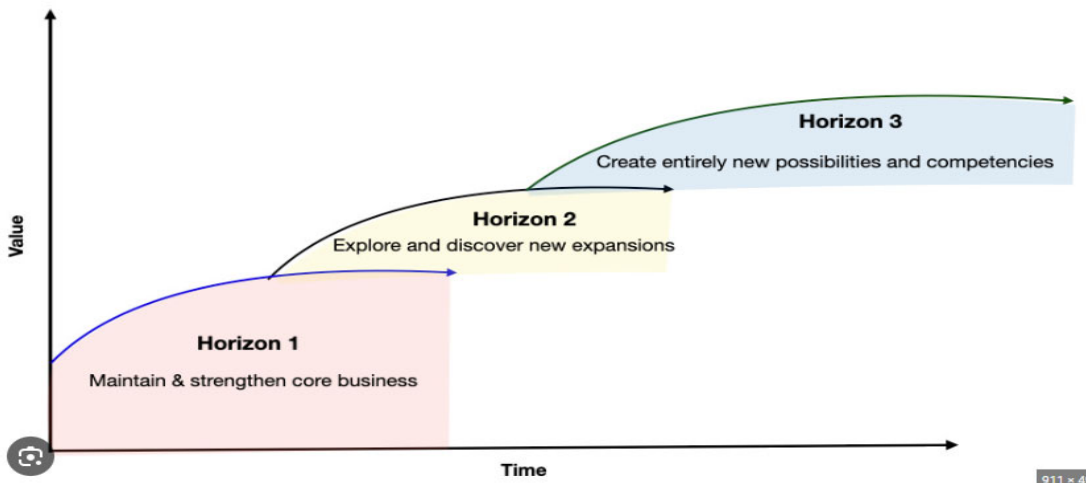
The LTP does not exist in isolation. Being aware of the surrounding issues affecting service delivery ensures that the development of the LTP is well-informed. The environmental scan and significant forecasting assumptions feed into all LTP content. Contextual information is relevant and necessary, and the documentation of all significant assumptions provides the basis for understanding how the LTP was developed.

There is no direct legislative requirement to conduct an environmental scan. However, an environmental scan is a means of identifying changes in the local economy, local demographics, and land-use, which are direct requirements under legislation. The analysis ensures all relevant matters are integrated with LTP development at an early point. A good scan ensures the plan is keeping current with changes in legislation and regulations. These will dictate levels of service and will shape the financial and infrastructure strategies.

## Approach

The Three Horizons Approach is encouraged by Taituara for use by the local government sector in long term planning. It requires consideration of the future state, acknowledging the transition state we are constantly in, and aligns assumptions to challenges and opportunities to prepare Council for the future environment. It provides an opportunity to assess the level of resources that go into maintaining the status quo, versus transitioning to the future state, and building the foundation for future opportunities.

Council has attempted to anticipate the future state, particularly with regards to economic, demographic, and legislative changes to ensure that Council can continue to strive towards achieving the Community Outcomes set at the start of the LTP process.



# Risk Assessment

In making assumptions about the future, there is a risk that the information we have relied on to make plans for the future of the district does not turn out to be accurate. This has been factored into *Appendix 1*, with an assessment of the risk impact and mitigations.

Additionally, there are risks inherent in the LTP preparation process which have also been considered. These are:

## **Assumption regarding Three Waters Reforms**

The assumption made for the LTP is that Stratford District Council's Water Supply, Stormwater and Wastewater operations and all associated assets, liabilities and contractual obligations will remain under the ownership and responsibility of the Stratford District Council for the life of the LTP. Council is investigating a regional collaborative approach, however we are only in early stages and no decisions have been made on how to progress this work yet.

## **District Planning**

The current District Plan has been operative since 11 February 2014, and has not been reviewed or updated since then. The Resource Management Act 1991 requires local authorities to commence a review of their District Plan at least every 10 years. However, Stratford District Council is in discussions with the Ministry for the Environment regarding this requirement if Council instead engages in the creation of a regional spatial plan under the new legislation.

The Taranaki councils together with the Ministry for the Environment are currently evaluating the possibility of the Taranaki region being one of the first tranche of regions to move to spatial plans under the Natural and Built Environments Act and Strategic Planning Act. The outcome of those discussions will determine whether the Stratford District Plan is reviewed or not. If Taranaki doesn't form one of the first tranche regions to move to the new legislation, or this process is impacted by the outcome of the general election, the Stratford District Council may need to commence a review of the current district plan in 2024/25.

The assumption made for the LTP financial budgets is that a regional spatial plan will be prepared under the new legislation. There is a medium risk that the legislation will be repealed under a National government, resulting in further uncertainty as to how to proceed, and how much this will cost. To mitigate this risk, Council has committed to funding either a district plan or its likely contribution to a regional spatial plan, and has allocated \$4,030,000 over the ten years of the LTP (uninflated), based on figures provided by Taranaki Regional Council in November 2023. This is to be loan funded, and repaid by rates over a period of ten years.

## **Financial Budgeting**

The development of the LTP relies heavily on Council's financial modelling systems, which must have a robust methodology and appropriate controls in place to prevent errors. Following the audit of the LTP, Council made a commitment to review the budgeting model that was used in the LTP 2021-31, which was an excel spreadsheet.

Local government sector guidance advises against using spreadsheets as the basis for financial modelling, rather it recommends investing in reputable financial modelling software suitable for local government, as they have gone through a robust implementation programme and have been rigorously tested. However, if spreadsheets are to be used, they need to demonstrate a high level of documentation and controls.

Council consider that any financial modelling system must be able to deliver the requirements for an LTP under the Local Government Act 2002: simple to use, flexible, compatible with other systems, and secure. Although a formal analysis has not been completed by staff and presented to elected members, as was recommended, Council considers that the current spreadsheet model is fit for purpose and delivers on the criteria above.

Spreadsheet models for an LTP can be large and cumbersome, relying on multiple interlinked worksheets with multiple dependencies. They can be difficult to audit – potentially adding to audit time and cost. Spreadsheets often lack controls, and changes to the model can result in formulas breaking resulting in errors, therefore they are significantly more likely to result in errors than if financial modelling software was used. There is a medium risk that the current spreadsheet financial model does not provide accurate financial forecasting information. However, council staff mitigate this risk by reviewing the reliability of the spreadsheet model regularly, testing

it annually through the annual plan process, and continually improving the controls and carrying out reconciliation checking throughout the model.

### **Decision Making Processes**

Adoption of the final LTP is made in one Council decision, but is the culmination of a large number of individual decisions, that are ultimately made and owned by elected members. The LTP requires elected members to make many decisions in a short space of time that will determine the wellbeing of the district for the next ten years. There is a medium risk that decision making processes impede elected members ability to make the best decisions for the Stratford district.

Time delays in working through all the requirements of an LTP may cause some decisions to be rushed, without appropriate consultation, and without relevant information provided to elected members. The LTP project team have prepared a timeline for the LTP in order to mitigate this risk, and are tracking to complete the Consultation Document by February 2024, providing sufficient time for appropriate analysis and consultation.

Council completed its section 17a reviews in August 2023, with many outcomes from that review feeding into the LTP, reducing the workload for activity analysis as part of the LTP. A new process change implemented will see decisions relating to the LTP adopted as draft right up until the adoption of the final LTP where everything will be up for one final opportunity to review. Previously, workshops were held with elected members along the way on various topics, but decisions were not made along the way, resulting in one big decision covering multiple LTP related issues, and causing confusion and uncertainty about what was in the LTP and what was out. This risk has been mitigated to some extent with the new process.

The risk with any LTP is that the community have not had the opportunity to contribute to the LTP decisions. The LTP engagement plan has been communicated with elected members in a workshop in September 2023, and was well supported. All significant decisions will be subject to consultation with the community in line with Council's Significance and Engagement Policy, and other decisions are only to be made with prior input from the community via pre-engagement methods.

Taituara have recommended to the sector that there is more rigour invested into decision-making processes – particularly when it comes to prioritisation. This provides rationale, and background for decisions, and having a prioritisation system will make decision making more efficient during council debate. The Senior Leadership Team has established a prioritisation system for all projects, to work through with elected members, based on 1) Legislative requirements, 2) Health and Safety, 3) Maintaining existing Levels of Service, and 4) Improving Levels of Service – in order of priority.

As with any council decisions that may create a level of controversy within the community, there is a risk that elected members may leave themselves open to claims of predetermination and bias. To minimise this risk, elected members have been educated on the appropriate conduct around decision making.

### **Auditor Involvement**

Unlike the Annual Plan, the LTP is subject to a full audit process, which will generate an audit report that attests to the plan's appropriateness and the quality of the information and underlying assumptions. The benefit to Council is that it provides an external check on the robustness of the information presented in the LTP, including the forecasting assumptions and financial modelling.

The risk with auditor involvement, in what should be a plan by and for the community, is that auditors with potentially little knowledge of the district can involve themselves unnecessarily in areas that are not relevant to providing assurance of the quality of the information. In previous years, auditors have requested changes to the LTP or Consultation Document that did not provide any meaningful information for planning purposes or value to the reader, and are more of a tick box exercise based on national guidance.

Audit involvement can also take up a significant proportion of the total LTP preparation time, and although the assurance they provide is valuable, the time spent on the audit process can cause delays, rushed decisions, and inhibit timely adoption of the LTP.

Council mitigates this risk by working closely with auditors and having regular meetings to discuss the key issues and ensuring there is sufficient staff resource and capability on the LTP project team to deal with audit issues as they arise.

The Department of Internal Affairs have provided councils with the option to not have the Consultation Document audited. Council intends to take them up on this offer and pursue the audit of the LTP document, excluding the audit of the Consultation Document.

### **Future Amalgamation**

Although not adopted as policy by the Government, the Future for Local Government review panel have recommended a significant reform of the local government sector, with the suggestion that amalgamation of the 78 authorities is a potential to likely outcome.

The initial LTP pre-engagement survey results for Vision and Community Outcomes showed that the biggest concern of the community and elected members was losing the district's voice through amalgamation of the Stratford District Council and/or its services. With more and more of local government delivery being pushed to a regional delivery model, there is a risk that a standalone smaller Council is seen as unsustainable in the near future.

This is a low risk, due to the uncertainty of government policy, and low support for this from the sector as evidenced at the recent Local Government New Zealand meeting with mayors on the Future for Local Government recommendations. The assumption for the LTP is that the Council continues to operate as a standalone entity throughout the life of the LTP.

## **Key Assumptions Underpinning LTP**

Forecasting assumptions are required by auditors of an LTP as supporting documentation, and should be accompanied by a risk/sensitivity analysis. Risk analysis for the LTP considers the impact of forecasting assumptions not coming into fruition, or occurring to a different extent than expected. Out of that comes an assessment of risk appetite (the extent to which council is willing to accept risk) and options for mitigating the risks.

## **Legislative Reform**

Council is subject to government regulation and legislation – these laws can be changed at any time throughout the life of the LTP.

It is likely that Council will face rising costs as a result of increased central government requirements and expectations, but as the outcomes of any legislative changes (with the exception of legislative changes mentioned earlier in this document), and therefore the costs, are unknown, they have not been factored into the financial budgeting process.

At the time of preparing this document the following reviews that are likely to directly impact local government were being considered:

- A review of the building consenting system
- Review of protected records for local authorities
- Climate adaptation bill
- Future for Local Government
- National Planning Framework
- Emergency Management Bill
- A review of the Waste Minimisation Act (Responsibility for Reducing Waste)

The proposed reviews are likely to have a material impact on council's revenues and expenditures, or other resources if enacted. With the recent change in Government, there is high uncertainty of the outcome and continuation of these reviews. Certainty of impact will be considered on an annual basis.

The change to a National coalition government is also likely to significantly impact the sector but as there is much certainty, any potential changes (excluding the repealing of the three water reform legislation) have not yet been factored into the LTP.

# Population and Demographics

Changes in an area’s population are generally driven by two factors: natural increase and net migration. Population growth in Stratford District averaged 1.0% over the 5 years to 2022 compared with 1.2% in New Zealand. The main source of population growth for the district was from natural increase factors (births and deaths).

The change in population and demographics over time influences the demand on council infrastructure, and the ability of Council to provide a consistent level of service to the community. Therefore, population projections and demographic changes should be factored into the development of the LTP.

## Population Growth

The Council is forecasting the district’s population will grow from 10,295 in 2024 to 10,799 by 2034, at an average of 0.4% per year, based on the latest forecast data from Infometrics (January 2024). This level of growth is unlikely to put significant pressure on council infrastructure. There is a low risk that growth may exceed these projections and Council may need to invest in additional urban growth infrastructure which will impact on capital budgets and revenue. There is also a low risk that growth is lower than the projections and Council over invests in infrastructure and services.

The growth in the Māori population of the district has been consistently higher than the growth of all other ethnicities for each of the last ten years. Stratford district’s Māori population was 1,550 in 2022, up 2.6% from the previous year.

## Demographic Changes

The below graph shows the current population by age group. The Stratford district is generally trending higher than the New Zealand average in the 60+ year age brackets, and much lower in the 20-29 year age bracket. However, the district is much higher than the national average in the 0-9 year age bracket showing positive signs of households choosing to raise their families in this district, and supporting the claim that the increase in population is largely driven by natural increase.

The gap in the 20-50 year old age brackets is not new, and is likely to be a result of the lack of tertiary level training opportunities and graduate employment opportunities in the district. With the change in working and studying environments as a result of enhanced technology and online access, and the increased acceptance that employees can work from anywhere in the country, and even the world, it is likely that we will see changes in the age demographics in the future. Due to the uncertainty of the impact, it has not been factored in to the projections.

Figure 38. Population by broad age group, 2022  
% of total, as at 30 June

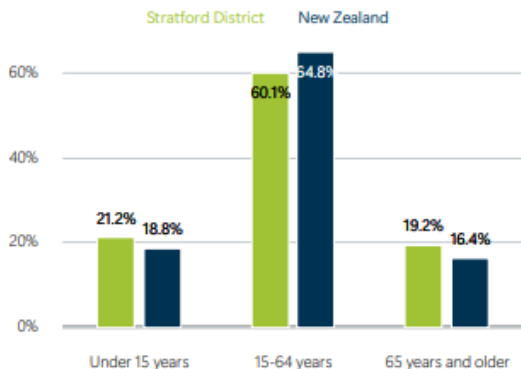
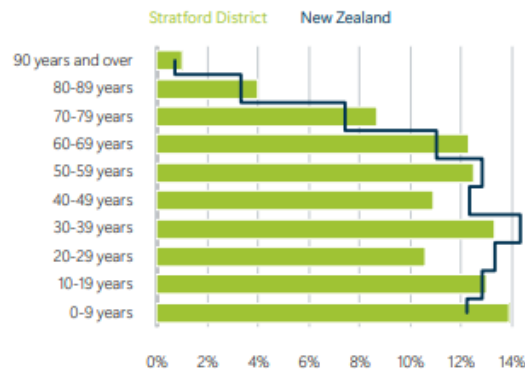


Figure 39. Population by 10-year age group, 2022  
% of total, as at 30 June



The Dependency Ratio calculates the average number of economically dependent population (0-14 year olds, and 65+) per 100 economically productive population at a specific point in time. A high ratio may indicate that the economically active population and the overall economy face a greater burden to contribute towards the rates requirement for the district.

The table below shows the Stratford District's Dependency Ratio is 67%, compared to the national average of 54%. This is something Council must be mindful of when determining funding sources (increased reliance required for user pays and exacerbator pays funding sources), and areas (prioritisation) and levels of expenditure (affordability).

Age decade	Stratford District		New Zealand	
	Level	% of total	Level	% of total
0-9 years	1,410	13.9%	625,490	12.2%
10-19 years	1,320	13.0%	655,720	12.8%
20-29 years	1,080	10.6%	679,450	13.3%
30-39 years	1,350	13.3%	733,760	14.3%
40-49 years	1,110	10.9%	631,220	12.3%
50-59 years	1,270	12.5%	654,040	12.8%
60-69 years	1,250	12.3%	561,800	11.0%
70-79 years	880	8.7%	380,170	7.4%
80-89 years	410	4.0%	167,640	3.3%
90 years and over	100	1.0%	34,790	0.7%
Dependency ratio	67.2%		54.4%	
<b>Total</b>	<b>10,150</b>	<b>100.0%</b>	<b>5,124,100</b>	<b>100.0%</b>

## Economic Outlook

Economic growth in the Stratford district is generally lower than the national average – averaging 1.7% per year over the 10 years to 2022, compared with an average of 3% in New Zealand. The estimated GDP for the district in 2022 of \$575m, makes up less than 1% of New Zealand's GDP.

There is some concern that the district is less diverse than average, with the largest industry being agriculture and forestry at 27%, the second largest industry being utilities (electricity, gas, water and waste) at 13%. The more concentrated a district's economic activity is within two or three industries, the more vulnerable it is to adverse effects such as those arising from climate conditions, or commodity price fluctuations.

Council intends to make significant investment in Economic Development over the life of the LTP to encourage diversification and provide opportunities to promote the Stratford District as a great place to do business. Under the Enabling Community Outcome, Council has committed to the following strategic goals:

- *We are a business friendly district*
- *We encourage a diverse and sustainable business community*
- *We enable economic growth by supporting business investment and development in our district*
- *We support the growth of employment opportunities within our community; with a particular focus on our rangatahi (youth)*
- *We carefully balance the needs and wants of our district when funding services and infrastructure*
- *We encourage partnerships to collaborate with Mana Whenua for the benefit of the Stratford district*

The LTP will contribute to these strategic goals by budgeting for development of an Economic Development Strategy in year 1 of the LTP and strategy implementation in later years, continue with full funding of Venture Taranaki for Economic Development services and Visitor Promotion, and investing in the development of the CBD infrastructure.

## Interest Rates

The weighted average interest rate on Council debt is currently 3.46%. This is expected to increase to over 4.09% by the end of the 2024/25 year. Council has based the interest rate on debt forecast assumptions on current borrowing rates and maturities, and the interest rate forecast for the next ten years from Infometrics.

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
4.09%	3.83%	3.73%	3.65%	3.61%	3.61%	3.61%	3.59%	3.58%	3.60%

Interest on investments is based on a similar methodology to the above, and is expected to change with the borrowing rate keeping the same margin above the borrowing rate.

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
4.34%	4.08%	3.98%	3.90%	3.86%	3.86%	3.86%	3.84%	3.83%	3.85%

There is a high level of uncertainty about the interest rate assumptions. The assumptions will be reviewed annually when preparing the Annual Plan, to ensure the assumptions are more precise and better aligned with updated market expectations.

With forecast interest expenditure on gross external debt in 2024/25 of \$1,492,766, an increase in interest rates of 1% will result in an additional \$339,620 in interest expenditure. Over the ten years of the LTP, the additional interest expenditure incurred as a result of a 1% increase in the interest rate assumption is \$4,691,742.

It is anticipated the loan to the Agricultural and Pastoral Association of \$7,180,000 will roll over on its maturity dates and will continue to derive interest revenue to offset the interest cost, plus a 0.25% administration fee. The debtor is not expected to default on any interest payments, nor are they expected to make any loan repayments during the LTP.

## Inflation

The forecast financial information includes provision for inflation. The local government sector jointly procures inflation data from Business Economic Research Ltd (BERL), and Council will rely on the Cost adjusters 2023 report for inflation assumptions.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Roads	0.00%	2.00%	2.30%	2.30%	2.20%	2.10%	2.00%	2.00%	2.00%	1.90%
Property	0.00%	2.10%	2.20%	2.10%	2.00%	1.90%	1.90%	1.90%	1.80%	1.80%
Water	0.00%	2.50%	2.70%	2.60%	2.50%	2.30%	2.30%	2.20%	2.10%	2.10%
Energy	0.00%	2.50%	2.70%	2.60%	2.50%	2.30%	2.30%	2.20%	2.10%	2.10%
Staff	0.00%	2.10%	2.20%	2.10%	2.00%	1.90%	1.90%	1.90%	1.80%	1.80%
Other Expenses	0.00%	2.10%	2.20%	2.10%	2.00%	1.90%	1.90%	1.90%	1.80%	1.80%
Maintenance Contracts	0.00%	2.00%	2.30%	2.30%	2.20%	2.10%	2.00%	2.00%	2.00%	1.90%
Sundry Revenue	0.00%	2.10%	2.20%	2.10%	2.00%	1.90%	1.90%	1.90%	1.80%	1.80%
Waste Index	0.00%	2.50%	2.70%	2.60%	2.50%	2.30%	2.30%	2.20%	2.10%	2.10%

For some areas, it is accepted that inflation is exceptionally higher than normal. Where this has been identified, council has sought expert advice for more appropriate rates – for example insurance is expected to increase by 25% in year 1 and then 7.5% each year after that.

Inflation has had a significant negative impact on actual council expenditure against budgeted expenditure in the past three years. However, there are clear signs that inflation has peaked. The pace of price increases is expected to decline. The key risk for local government remains higher-than-normal price increases, and the effect this may have on council expenditure. This may be exacerbated by adverse shocks to the economy such as severe weather events.

There is a medium level of certainty around the inflation rates, however all signs are showing that inflation has a stable outlook from 2024. If the inflation rates tabled above were all to increase by 1% it would impact total operating expenditure for the first three years of the LTP as follows:

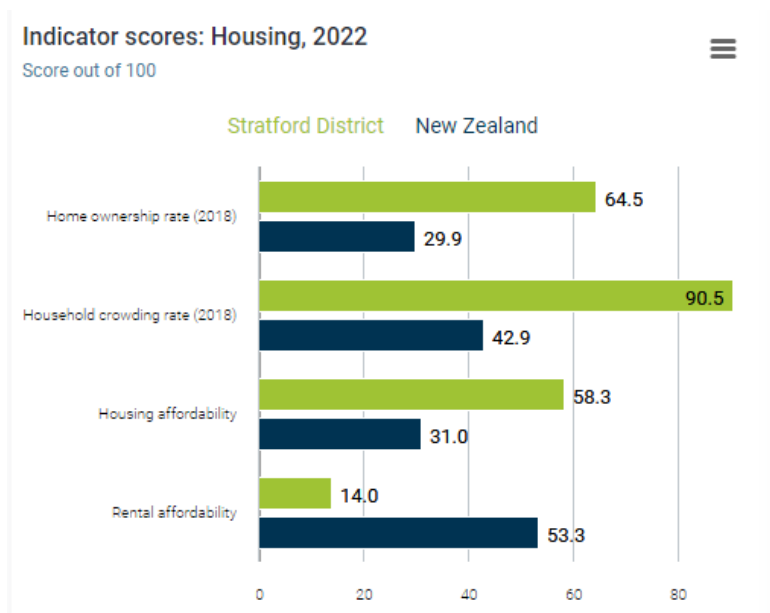
Budgeted Operating Expenditure (\$000) After 1% Increase (\$000)		
Year 1	\$27,067	\$27,067
Year 2	\$28,000	\$28,271
Year 3	\$28,947	\$29,245

### Housing Supply and Demand

The average residential house price in Stratford is currently \$478,472 (as at March 2023), compared to the national average house price of \$939,146, and the New Plymouth average of \$707,352, and slipping back from a peak for Stratford in 2022 of \$519,616.

This presents an opportunity for growth, particularly fuelled by first home buyers, and down-sizers looking to invest in the district's housing stock, and potentially relocate to the district. Since 2018, average house price growth has been higher than the national average.

The graph below shows that Stratford District is out-performing the nation (on average) in all housing wellbeing areas except for rental affordability. Affordable housing is important for community well-being. In Stratford District the average house value was 7.1 times the average household income in 2021. Housing was more affordable than the New Zealand average (9.0). However the average weekly rent accounted for 28% of average household income, compared to 22% nationally. The home ownership rate in Stratford is 70% (compared to the national average of 65%). The household crowding rate is 5% in Stratford compared to the national average of 11%.



The data below shows a significant decrease in building consent applications in 2023 which is most likely a result of the current economic conditions. However subdivision and land development activity remains high, which is a good indicator of market prospects for housing demand. Council has made the assumption in terms of resource allocation and financial budgeting that the demand for these council services will be consistent over the next ten years.

	2023	2022	2021	2020
Building Consent applications	241	360	306	242
Subdivision applications	84	82	70	72

The Rating Valuation process was carried out in 2023 (as at August 2023) by Quotable Value Ltd, and audited by the Officer of the Valuer General. The updated values will be used for rates purposes from Year 1 of the LTP (from 1 July 2024). The change in the values from 2020 to 2023 Rating valuations are summarised below:



	Number (2020)	Number (2023)	Increase	Valuation (2020)	Valuation (2023)	Increase	Average Rating Value
<b>Commercial</b>	172	178	3.5%	99,055,000	133,152,000	34.4%	748,045
<b>Dairy</b>	417	404	-3.1%	1,219,498,000	1,257,132,500	3.1%	3,111,714
<b>Forestry</b>	205	211	2.9%	118,549,000	158,053,700	33.3%	749,070
<b>Industrial</b>	196	187	-4.6%	53,847,000	72,312,400	34.3%	386,697
<b>Lifestyle</b>	798	955	19.7%	451,896,000	621,535,500	37.5%	650,823
<b>Mining</b>	2	2	0.0%	775,000	776,000	0.1%	388,000
<b>Other</b>	273	259	-5.1%	142,191,000	181,796,050	27.9%	701,915
<b>Pastoral</b>	279	240	-14.0%	471,118,000	630,788,000	33.9%	2,628,283
<b>Residential</b>	2,758	2,873	4.2%	983,147,000	1,276,718,000	29.9%	444,385
<b>Utilities</b>	28	29	3.6%	256,750,000	252,168,000	-1.8%	8,695,448
<b>TOTAL</b>	<b>5,128</b>	<b>5,338</b>	<b>4.1%</b>	<b>3,796,826,000</b>	<b>4,584,432,150</b>	<b>20.7%</b>	<b>858,830</b>

Council has budgeted for the cost of a Rating Valuation in years 2026, 2029, and 2032 of the LTP.

Housing for the Elderly – Council provides 10 rental units available for over 65 year olds capable of caring for themselves. Total weekly income from all sources, including NZ Superannuation, must not be in excess of the adult minimum wage for a 40 hour week. There is roughly 40 to 50 on the waitlist at any given time, the number on the waiting list increases yearly. At a regional level, a Regional Housing Strategy is being developed which advocates for a model of a regional council owned housing collective (potentially a council controlled organisation) owning the regional community housing stock. No assumptions have been made based around this strategy for LTP planning.

In the LTP 2021-31, Council decided to extend on the previous 33 lot subdivision, with an additional subdivision (45 lots) on neighbouring land. To date, Council has spent \$2,145,000 in purchasing the land. Further development work is required to provide roading, water and wastewater services. Council has also committed to the original vendor to provide four areas for wetlands. It is unlikely that the subdivision project, including the sale of all sections, will be complete by 30 June 2024, therefore Council has budgeted for further loan funded expenditure of \$6,000,000 in Years 1 to 3 of the LTP, in addition to the rates funded interest on the loan and sales receipts totalling \$9,259,000, which will be used to repay debt.

### Rating Unit Growth

It is expected that the number of rating units will grow by an average of 1.0% per year over the next ten years. Based on population data projections and the increase in the rating units in the past two years below, there has been an average increase of 1.5% across all the rating units charged, excluding Water and Wastewater increases that are inflated due to the introduction of a 50% charge on unconnected but serviceable properties.

#### *Change in Number of Charges (rating units or SUiPs)*

	2021/22	2023/24	Increase	% Increase
Solid Waste	2604	2701	97	3.7%
Water Supply	2972	3281	309	10.4%
Wastewater	2720	2901	181	6.7%
UAGC	4868	5161	293	6.0%
General Rates	4788	5067	279	5.8%

### Business growth

The customer satisfaction survey 2023 results year on year indicate that residents would like to see improvements to the CBD Broadway area, particularly in terms of vibrancy and the look and feel of the centre of town and a general tidy up of the shops and verandahs on the main street. Many would also like to see more variety of shops on Broadway – particularly shops for essential items, healthy food shops and clothing. There is sufficient infrastructure to support commercial business operations within the CBD, however the aesthetics of the main centre are in need of investment.

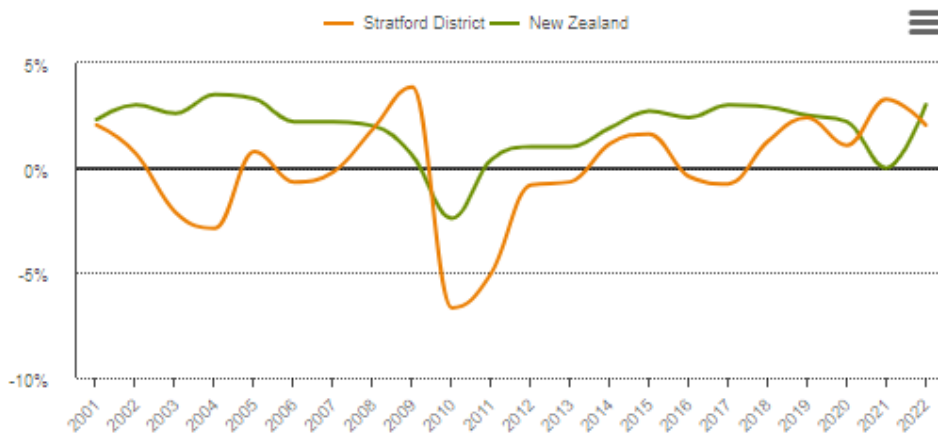
In December 2023, Council approved to progress the proposed Prospero Place concept plan for the Northeast Plaza to progress to the next stage where designs would be developed. This will open up the central business district area in the Stratford township and provide open, comfortable spaces for the community to congregate

within the CBD. This project is to be fully grant funded from the Government's Better Off Funding and is budgeted in the first three years of the LTP for a total of \$1,400,000.

The two biggest contributing industries in Stratford are the Agriculture and Forestry sector contributing 27% (Dairy Farming making up 16% of this) of district GDP, and the Electricity and Gas Supply contributing 16%. Stratford has the region's largest electricity generation site at Contact's 575MW gas powered plant – it is considered a nationally significant generation site. There is a risk that over-reliance on these two industries contributes to economic wellbeing vulnerability.

In 2022, there were 3,737 (2019:3,462) filled jobs in the Stratford District. Significant employment growth was experienced in 2021 in the district, compared to the national average, and previous years. The biggest increase in jobs in Stratford since 2018 to 2022 has been in 1) central government administration, defence and safety, 2) education and training, and 3) local government administration.

## Employment growth, 2001-2022



The district unemployment rate was 3.8%, compared to the regional unemployment rate of 3.7% and national unemployment rate of 3.4%. Stratford has a higher rate of self-employment at 17%, than the national average of 16%. Stratford also has a higher productivity rating per employee. In 2022, GDP per employee came to \$153,873, compared to the national average of \$132,815.

## Climate Change

At the regional and district level, research indicates Taranaki could experience more extreme and various weather events as a result of climate change, causing increases in flooding, landslides, avalanches and mudslides during heavy rainfall events and prolonged periods of drought, with the risk of wildfires during summer months. Such events could place increased pressure on business continuity and funding availability.

Legislation that is expected to impact Council includes: Waste Management Bill (Replacing the Waste Management and Minimisation Act 2008, and the Litter Act 1979) The Climate Change Adaptation Act, Natural and Built Environment Act and Spatial Planning Act (Currently the Resource Management Act).

Legislation that is also likely to have an impact on the Stratford District is 'Te Ruruku Putakerongo' (Collective Redress Act - Taranaki Maunga, Te Kāhui Tupua ) as community expectations on Council service delivery may change once the maunga becomes a legal person.

In 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill was passed, making climate-related disclosures mandatory from 2023 for certain organisations, but not currently capturing Stratford District Council. The Carbon Neutral Government Programme, launched in 2020, requires a number of public sector organisations to become carbon neutral from 2025. Again, this does not apply to Stratford District Council. It is likely that these expectations will eventually be placed on Council at some future point, and Council is working towards eventual compliance.

## Resilience

Council has updated its community outcome “Resilient” to include the following Strategic Goals:

- *We consider our natural resources as taonga (treasures) and we will work with our treaty partners and community to look after them.*
- *We support a low-emissions future for our community*
- *We enable our rangatahi (youth) to be sustainable leaders*
- *We strive to have resilient infrastructure that meets the current and future needs of the district*
- *We respect Te Ao Māori values and Mātauranga Māori in our mahi (actions)*

Any environmental issues impacting on council assets and or services have historically been brought to council’s attention in the context of future works. Either as a result of the environmental impacts, or as an opportunity to future proof assets or services in the context of other required works. For example, the council is proposing to spend \$100,000 a year on the replacement of culverts to mitigate the effects of climate change. The status quo approach would be to continue to address these matters at the asset or activity level via the LTP.

Water conservation is a key requirement for future resource consent renewals and will look to be addressed in the LTP by installing water meters universally across all properties in the Stratford District in Year 1 of the LTP, and was consulted on in the LTP 2021-31.

Council hired a Sustainability Adviser in March 2023. The purpose of this position is to develop and deliver environment and sustainability strategies, plans and projects, including those relating to land & water conservation, Council’s energy use, renewable energy and the mitigation of climate change. The position also has the responsibility to provide strategic guidance and support on waste minimisation activities ensuring Council’s Waste Minimisation Plan is implemented and the outcomes are achieved.

Future plans within the first three years of the LTP are to develop a corporate Sustainability Policy (and embed this internally), research and contract out a corporate baseline emissions assessment, and develop a Sustainability Strategy – utilising a facilitated working party model to develop the strategy. Projects will be developed to meet the high-level outcomes and objectives, approved by council, of the working party Sustainability Strategy. A capital expenditure budget of \$395,000 has been set from years 4-10 of the LTP.

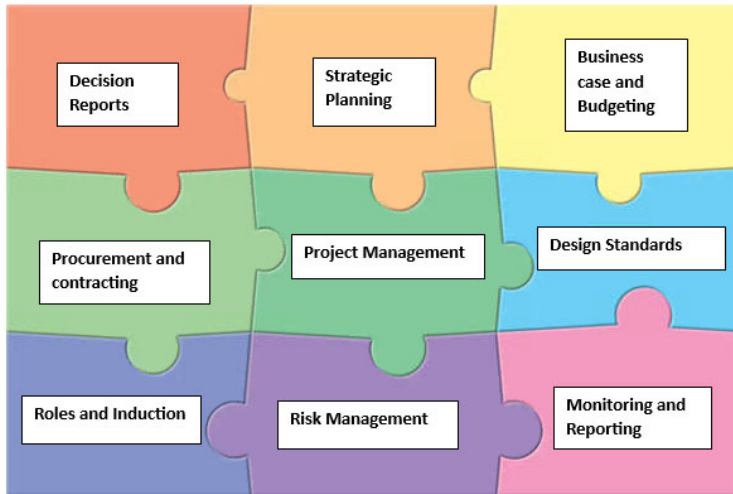
Once baseline data is captured there is a potential for Council to develop an Emissions Reduction Plan that initially reduces Council’s corporate emissions, but with a view to the future – to assist and enable the community to do the same.

This Council also has officers that attend Regional Climate Change Forum (TAs), Aotearoa Council Climate Network (TAs), and the Regional Risk Reduction Assessment Group. (Multiple Regional Representation) These groups are all collaborative platforms/networks that share best practice and lessons from experience, which will be helpful for knowing how to get the best value for this district.

The Audit and Risk Committee has approved the Insurance Framework which establishes how infrastructure assets will be protected from an insurance perspective from the effects of extreme weather events caused by climate change.



## Adopt a Climate lens to everything we do



## Operational Assumptions

### Infrastructure Asset Assumptions

The remaining useful lives of Council assets are recorded in the Infrastructure Strategy and have been taken from the most recent Independent Asset Revaluation carried out in 2023.

There is a medium level of uncertainty about the expected useful lives which is based upon estimates by actual performance, industry standards, engineer estimates, and valuers. Plant, equipment, and infrastructure assets lives range from 4 years to 120 years and were determined either upon initial recognition, or at the asset revaluation cycles. Depreciation and interest costs would increase if replacement capital expenditure was required earlier than anticipated. However, these impacts could be mitigated as capital projects could be reprioritised in the event of early expiration of assets. It is also possible for assets to last longer than their estimated useful life, again mitigating the effects of asset failure before the expected date. Service disruption may occur where assets fail before their useful life, however, Council is very responsive when it comes to ensuring the core infrastructure services are maintained and operated with minimal disruption.

There is a low level of uncertainty that Council activities will significantly change and result in decisions not to replace existing assets. Where a decision is made not to replace an asset, this will be factored into capital projections. Council has a comprehensive asset management planning process in place to ensure there is an efficient renewal program.

Council is constantly trying to improve the level and accuracy of asset data for core infrastructure recognising the current information could be improved. The maintenance and renewal forecasts are based on realistic and reliable information about asset condition and performance.

A report was presented to the September 2023 Audit and Risk Committee showing that critical assets requiring replacement within the next ten years had a combined replacement cost of \$53,528,517 – with the majority related to Rooding Overlay. This is budgeted for in the LTP and funded in accordance with the Revenue and Financing Policy.

## Roading Assumptions

The Funding Assistance Rate (FAR) government roading subsidy is forecast to be 63% in 2024/25 and to remain at this level over the following nine years. Note – this includes Special Purpose Roads that were previously funded at 100% subsidy. This is based on written confirmation from Waka Kotahi (New Zealand Transport Agency) in 2023 that the FAR would apply for approved activities in the 2024-27 National Land Transport Programme. An assumption has also been made that Waka Kotahi will fund all roading projects approved by elected members.

There is medium to high level of uncertainty around the FAR rate remaining at 63% over the 10 years of the LTP. If the FAR rate reduced by 1%, this would amount to a loss of subsidy revenue in 2024/25 of \$87,000 – from \$7,427,000 to \$7,340,000, and \$1,129,000 over the 10 year LTP period, from \$105,223,000 to a total of \$104,094,000 over the ten years.

The budget for the first 3 years of the LTP has not yet been approved by Waka Kotahi and is unlikely to be approved by the time the LTP is adopted. Council will reduce its budgets in years 1-3 of the LTP to the amount approved by Waka Kotahi if the approved amount is less than the budget allocation requested. There is an even higher risk that Waka Kotahi may not fund all of the roading projects proposed from Year 4 onwards. The Brecon Road bridge project has not yet been approved by Waka Kotahi as the business case for this is yet to be initiated, but the procurement process to prepare the business case is underway and is expected to be submitted to Waka Kotahi in the 2023/24 financial year. It is highly unlikely that the Brecon Road bridge project will proceed without central government funding.

Waka Kotahi's Low Cost Low Risk roads project will have a significant impact on Council expenditure. Council is proposing to spend \$22,215,000 over the next ten years on this programme, to be funded by Waka Kotahi at the 63% rate.

The Connecting our Communities Strategy is a 30 year vision for the Stratford District with a number of projects falling out of the strategy with forecasted capital expenditure of \$400,000 per year (uninflated) for the next ten years. This is also expected to be funded at 63%.

Uneconomic Bridges – These are bridges that have a low efficiency rating, usually determined by usage, number of beneficiaries, and availability of alternative options. Where an investment decision relating to the renewal, reinstatement, upgrading of transport infrastructure is determined to be uneconomic, Council is required to consider a range of options including alternatives to providing an infrastructure solution and a robust assessment of social, cultural, economic and environmental impacts. Bridges requiring replacement, or significant upgrade over the next ten years in the district have a combined replacement cost of \$5,680,000. Of these 14 bridges, four provide access to only one property and are unlikely to meet Waka Kotahi funding criteria without a robust impact assessment. Therefore, there is high uncertainty around achieving funding for these bridges. Council rarely decides to proceed with roading expenditure without government funding, or from any other significant funding source, including but not limited to the relevant landowner.

Forestry harvesting has had a significant adverse impact on expenditure on rural road emergency maintenance in the Stratford district for a number of years. Under the new National Environmental Standards for Commercial Forestry (that come into force from November 2023) Councils will have greater control over commercial forestry harvesting practices, and more power to decide where new commercial forests are located to reduce negative impacts on communities and the environment. Council will continue to apply a differential to ratepayers that exacerbate this by having large forest plantations on their property, but is proposing to change the way the differential is applied from 1 July 2024. The current system creates inequities as the forestry differential is only applied to properties that are primarily used for forestry purposes. This results in situations where properties that have large forestry blocks that may cause damage are not captured under this differential, and small properties fully planted with forestry that are unlikely to cause too much damage captured. The proposed differential will apply to the proportion of the property that is used for forestry purposes (other than indigenous or protected forests) larger than 10 hectares. This is a fairer approach, and the assumption is that it will bring more ratepayers under this differential.

## Ability to Deliver Planned Capital Expenditure

There is a high risk that Council will not be able to achieve 100% of its planned capital budget. History shows this has never been achieved, and for varying reasons. In the past three years, the delivery rate for capital projects (against budget) was:

<b>2022/23</b>	62% (due to internal and external resource factors)
<b>2021/22</b>	86% (near completion of Wai O Rua Aquatic Centre)
<b>2020/21</b>	47% (timing of construction of Wai O Rua Aquatic Centre)

Council has mitigated this risk by working through the full capital projects list with elected members line by line, and prioritising projects based on a set of criteria. Major capital projects have also been logically spread taking into account initial development, construction, and implementation phases of a project.

## Council Farm

The Council owns and operates a dairy farm in Stratford, which consistently has provided an economic return to ratepayers, and assists in mitigating the impact of rates increases. In the past three years the farm has contributed to rates as follows:

	<b>Rates Contribution</b>
2021/22	\$53,000
2022/23	\$149,000
2023/24	\$198,000

The Farm Reserve currently has a nil balance as it was fully used up for rates mitigation for 2023/24. For the purposes of the LTP, an assumption has been made that the Farm will provide at least \$75,000 of rates mitigation each year over the life of the LTP, and that any additional profit will go towards loan repayments. The loan balance for the farm is currently at \$1,909,228.

## Percy Thomson Trust – Council Controlled Organisation (CCO)

The Council currently has one CCO, the Percy Thomson Trust. The Trust's main activities are to operate an Art Gallery and a retail store, and provide an Arboretum. The Trust is a CCO by way of the Council having the ability, as per the Trust deed to appoint all trustees.

The LTP has been prepared on the basis that the Trust will continue to operate as a CCO, with similar financial impacts to previous years.

## Other Environmental Factors

In addition to the significant assumptions and areas for consideration above, there are other significant factors that may have an impact on the direction of the LTP and contribute to decision making.

## Relationships with Mana Whenua

Council has made a commitment through the recently updated Community Outcomes to work with iwi to achieve the following outcomes:

- Resilient:
  - *We consider our natural resources as taonga (treasures) and we will work with our treaty partners and community to look after them*
  - *We respect Te Ao Māori values and Mātauranga Māori in our mahi (actions)*
- Connected:
  - *We are committed to fostering meaningful and genuine partnerships with Mana Whenua*
- Enabling:
  - *We encourage partnerships to collaborate with Mana Whenua for the benefit of the Stratford district*

Iwi authorities that have mana over whenua within the Stratford district are:

- Ngāruahine Iwi Authority
- Te Runanga o Ngāti Ruanui Trust
- Ngaa Rauru Kiitahi
- Te Runanga o Ngāti Mutunga
- Te Kahui Maru Trust
- Te Atiawa Iwi Authority
- Te Runanga o Ngāti Tama.

There are no formal agreements between Council and iwi. However, engagement occurs regularly with iwi project by project as the need arises. Council has made a commitment through the Communication and Engagement Strategy to involve iwi in Council decision making at an early stage.

In 2021, Council established a Māori Ward for the 2022 and 2025 local elections. The Māori Ward was advocated for strongly by local iwi and Māori. All councillors have a responsibility to represent the community, however the Māori ward councillor has a particular responsibility to represent people of Māori descent and bring forward Māori views and aspirations to the decision making process.

### **Regional Relationships**

Council is committed to maintaining strong relationships with the other Taranaki councils in the region. The Future for Local Government Review recommendations strongly recommend that regional shared services are considered by default when looking to renew major council contracts.

Taranaki has four Councils, made up of three territorial authorities and one regional council:

- Taranaki Regional Council
- New Plymouth District Council
- South Taranaki District Council

Major regional projects include:

- Tapuae Roa - regional economic development strategy
- Ara Ake Energy Centre
- Regional Waste Minimisation strategy
- Regional Sports Facilities strategy
- Taranaki Maunga Project
- Regional Housing Strategy

The Stratford District is also noted as a relevant local authority (along with the Manawatu-Wanganui Regional Council, Ruapehu District Council and Whanganui District Council) under the Te Awa Tupua (Whanganui River Claims Settlement) Act 2017. There is uncertainty at present as to what Stratford District Council's obligations will be specifically and what council resources will be required to meet our legislative obligations.

### **Emergency Management Preparedness**

The Council has an established Emergency Operations Centre at the War Memorial Centre in Stratford to train for and undertake its civil defence operations. The TET Sports Stadium has been identified as the likely area for a welfare centre, if and when needed. The location and nature of an event may however render these facilities unusable or determine that a different location may be more appropriate. All critical Emergency Operations Centre Equipment is mobile and easily relocatable.

Both buildings have been identified as earthquake prone, which may impact their usability during or after an emergency, particularly an earthquake. Council has budgeted to earthquake strengthen the TET Stadium to IL4 level and 100% strengthened in the LTP, at an estimated cost of \$1,300,000, and to earthquake strengthen the War Memorial Centre to IL3 and 67% strengthened.

In the meantime, both buildings are considered appropriate for training and response to events other than an earthquake.

Council maintains a pool of trained staff as well as community volunteers and has access to highly trained Emergency Management professionals through the Taranaki Emergency Management Office and the National

Emergency Management Office. Furthermore, there is strong mutual support by councils within and outside the region if and when the need arises.

Civil Defence Emergency - Council insures above ground and below ground assets under separate insurance policies. The above ground assets are insured under a Material Damage Policy, and the below ground assets are insured through LAPP. Central government is a co-funder of roading infrastructure and, as demonstrated by various recent events, would be expected to support local authorities during any response and rebuild efforts.

Through the Taranaki Emergency Management Office, the Taranaki region maintains a hazard register, and plans and trains to respond to events arising from natural, biological and infrastructure hazards. These range from earthquakes and volcanic eruptions to biosecurity issues and infrastructure failure.



## Appendix One – Table of Assumptions and Risks

ASSUMPTION	SOURCE	RISK	LEVEL OF UNCERTAINTY	IMPACT	RISK CONTROL
<b>Population Change</b> That the district population will increase on average by 0.4% each year.	Infometrics	Population growth is significantly higher or lower than projections	Low	If population is significantly higher, then infrastructure may not be able to cope with the demand. If population is significantly lower, then services may go underutilised and revenue from fees and charges may reduce.	Limited risk mitigations available. The cost of reducing the impact of a significant increase in population would severely outweigh the benefits.
<b>Demographic Change</b> The prediction is that the proportion of elderly over 65's and young under 10's will be higher than the national average, and that the Māori population will continue to grow at a faster rate than all other ethnicities.	Infometrics	The demographic make-up of the district differs significantly from previous year changes and expectations.	Low	The district already has a higher dependency ratio than the national average which puts a greater burden on the working age population, and is likely to reduce productivity capacity and growth.	Limited risk mitigations available. Ensure attractions and facilities are available for all age groups, and support is available for ethnic minorities.
<b>Climate Change</b> 1) Gradual change in temperature – no impact factored into LTP 2) Socio-economic consequences of climate change decisions – no impact factored into LTP	Corporate baseline emissions assessment (TBC)	Environmental changes may accelerate at a rate higher than predicted. The consequences of adaptation measures may disproportionately harm parts of the community.	Medium	The district has no exposure to coastlines, however may be impacted by severe weather events including heavy rainfall and drought.  Work with community where climate change decisions will impact negatively.	Capture baseline emissions data  Work with the business community on diversification  Work with households and schools on waste reduction
<b>Waka Kotahi Revenue</b> Significant proportion of revenue, budgeting for 63% of all roading expenditure	Waka Kotahi	FAR may change  Some expenditure is not funded – change in criteria for inclusion in subsidised works programme	Medium	Financial impact – if FAR increases then we have over-rated the community, if FAR reduces we may have to reduce the planned programme.  If some works are not approved, then this will directly impact parts of the community, and reduce the works programme.	Waka Kotahi have confirmed the FAR rate for the next 3 years. Work will be prioritised by what is approved by Waka Kotahi.

<b>Emergency Event</b> Disruptive or destructive emergency events could lead to damage – not budgeted for	N/A	Business continuity – continuing to provide agreed levels of service  Financial cost – emergency response and rebuild costs	High	Impact on infrastructure, employment, housing, social disruption, health and access.  Increased debt - Likely to require loan funding for rebuild costs	Business continuity plans, insurance, borrowing capacity. Central government source of funding.
<b>Three Waters Reform</b> Delivery of 3 waters activities by a Taranaki Regional entity from 1 April 2025.	Legislation / regional agreement	Risk that this may not occur as planned causing uncertainty, additional work and resourcing.	Medium	Service delivery impacts – confusion on who is doing what and when.  Reduced debt and responsibility for Council may not be realised	The region is committed to proceeding with a three waters CCO if the legislation is repealed by the new government.
<b>Resource Consents</b> That council will be able to obtain all resource consents necessary for council business.	Schedule of consents (internal)	Council may not be able to continue existing service delivery if consents expire or are not renewed / approved by Taranaki Regional Council.	Low	Council has numerous consents (excluding 3 waters) in areas such as solid waste, property (Wai o Rua, Farm), and Roading. Any issues may prevent Council from delivering existing levels of service.	Work closely with TRC and iwi authorities – particularly in the lead up to consent expiry date.
<b>Useful Lives of Significant Assets and Depreciation</b> Revaluations, and consequently reassessments of the useful lives of significant assets will continue every three years for Land and Buildings (Years 2026, 2029, and 2032) and every two years for Roading (Years 2026, 2028, 2030, 2032, 2034).	2023 Asset Revaluation by Beca	Useful lives could be less or longer than predicted, causing unexpected asset failures	Medium	Service delivery – asset failures if lives are less than predicted  Financial impact – replacing assets earlier than expected means that there are insufficient funds to cover the cost of replacement.	Ensure a full asset revaluation is carried out every three years, and an independent impairment assessment is undertaken each year.
<b>Revaluation of Non-Current Assets</b> Revaluations will take place every three years and the percentage increases assumed are as follows: <ul style="list-style-type: none"> <li>Buildings: 4.35% in year 3, 6.39% in year 6, 6.32% in year 9%</li> <li>Roading 10% in year 2, and every second year after that</li> <li>Utilities 5% in year 2, and every second year after that</li> </ul>	Business and Economic Research Ltd	Risk that Council is not funding depreciation at an appropriate level to cover the future asset replacement cost	Medium	Financial impact – revaluations come at a substantial cost to Council in terms of fees and increased depreciation, however they ensure sufficient funds are set aside for future replacement and that the burden is placed evenly on current and future generations.	As above, get quotes early for full revaluation years.
<b>Return on Investments</b> A&P Loan Term Deposits Council Farm	Current rates / margins Historical data	Returns could be higher or lower than predicted	Low	Minimal financial impact due to materiality in relation to total revenue.	Have agreements in place confirming performance where possible, or obtain quotes (for all term deposits)

(refer assumptions in report)					
<b>Rateable Properties</b> The assumption is that rateable properties will increase by an average of 1% over the next ten years.	Consent Data	Increase in rateable properties could be higher or lower than predicted	Low	Higher number of rateable properties increases the spread of the overall intake lowering individual property rates. On the flip side, the increase can put pressure on council infrastructure and resourcing. The reverse applies for a reduction in rateable properties.	Limited controls available. Ensure land development processes are resourced and streamlined to encourage and support growth in the district, and at appropriate locations.
<b>Capital Delivery</b> Council plans to deliver 100% of all budgeted capital expenditure over the life of the Long Term Plan. The financial model was developed based on this assumption.	Director Assets / Chief Executive	That Council delivers significantly less than 100% of capital budget.	High	Reduced service levels if assets are not maintained as they should be, over-reliance on repairs and maintenance expenditure. Potential to over-rate ratepayers if new expenditure is factored into budget, along with operational impacts, and then doesn't materialise.	Council has prioritised projects and elected members have reviewed and accepted the capital programme. Major capital projects have also been logically spread taking into account initial development, construction, and implementation phases of a project.
<b>Inflation</b> Council, along with many other NZ councils, calculates and applies inflation factors to its 10 year budget forecast, using predictions of future inflation levels from New Zealand economic research company.  The predictions are stated earlier in this report.	Business and Economic Research Ltd	That inflation is much higher than forecast assumptions.	Medium	Financial impact on expenditure – budget increases will be required.	Limited controls available.  Review and update assumptions annually.
<b>Interest on Debt</b> Interest cost assumptions are stated earlier in this report..	Infometrics	That interest costs continue to increase higher than forecast assumptions	Medium	Financial impact on interest expenditure – budget increases will be required (less of an impact after three waters transition date)	Reduce reliance on debt. Comply with treasury policy and LGFA covenant limits.