



ATTACHMENTS

**Strategy, Finance and Risk Committee
meeting
Separate Attachments 1**

Monday, 26 June 2023

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Significant Forecasting Assumptions

2024-2034 Long-term Plan

Introduction

Forecasting assumptions identify important trends and projections and assess the risk and potential impact that are expected to affect the Council and community. These assumptions are essential in providing the basis for the Long-term Plan (LTP).

These assumptions will be revised prior to finalising the LTP, to ensure the most up to date and relevant information is referenced.

No.	Assumption	Effect
5	Employment projections and sector projections	Medium
11	Resource management reform	High
12	Service Delivery Method	Low - High
13	Inflation - Our costs	Low - High
15	Borrowing and interest rates	High
16	Investment interest rates	Low
20	Ownership of water infrastructure assets	High
29	Project costings	Low - High
37	Deliverability of the capital programme	High
41	Impact of growth beyond city boundaries	High

Significant Assumptions Commentary

5 Employment projections and sector projections					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
<p>Over the medium and long-term, the Tauranga City economy is projected to remain on an upward, expansionary growth path with broad-based employment growth. The total number of employment opportunities are expected to grow to 92,600 by 2031, and to continue to grow over the long-term, reaching 112,260 by 2051.</p> <p>The Tauranga CBD is expected to experience significant growth in the services and retail sectors, whilst Tauriko is expected to continue to see a large growth in industry sectors.</p> <p>The economic structure is expected to remain broadly constant, with a slow but continued concentration in Manufacturing (up from 8.6% to 9.5% of total employment), and Health care and social assistance increasing its share of employment from 13.2% to 14.0%. Professional services, and the associated office and support services, will continue to grow, and is expected to increase from 12.8% to 13.0% of total employment.</p>	<p>Draft Tauranga City and Western Bay of Plenty District Employment Estimates for Traffic Modelling, Methodology and Process Outline, Market Economics (M.E), February 2023</p> <p>Tauranga City and Western Bay of Plenty Business Capacity Assessment, December 2022.</p>	<p>Employment growth will occur faster or slower than predicted, and/or in different locations than assumed.</p>	<p>As with all long-term growth projections there is a relatively high risk of short term fluctuations as periods of high and low growth is experienced through a projection period.</p>	<p>Medium - The potential impact of over or under investing in infrastructure based on the projections.</p> <p>Under an economic slowdown lasting 2-3 years, the overall demand levels for industrial land will drop, however there will still be a deficit over the medium to long-term. The scenarios (sensitivity) that reflect higher growth, or better performance by some sectors will however</p>	<p>The Business Capacity Assessment reflects a 'business as usual' growth outlook and is supported by a sensitivity analysis to illustrate the effects of alternative growth assumptions.</p> <p>Continual monitoring and updating of the allocations in particular reduces risk and enables Council to respond where clear departures are evident or where assumptions change.</p>



11 Resource Management reform					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
That during the life of this LTP, the Resource Management Act 1991 will be repealed and replaced with new legislation. This would result in a new National Planning Framework, and a regional planning model.	Ministry for the Environment	<p>That Council may not be delivering services such as developing policy (city planning) and may be implementing regional spatial strategies that it has limited input into.</p> <p>That due to the legislative changes, the Council is unable to effectively plan for growth, resulting in ineffective investment in infrastructure and services.</p>	Medium - The initial indication is the overall transition process would be completed within ten years.	<p>High - changes could have a significant impact on the way we operate.</p> <p>The Resource Management Act 1991 will be repealed and replaced with three new acts:</p> <ul style="list-style-type: none"> • The Natural and Built Environment Act (NBA), as the main replacement for the Resource Management Act (RMA), to protect and restore the environment while better enabling development. • The Spatial Planning Act (SPA), requiring the development of long-term regional spatial strategies (RSS) to help coordinate and integrate decisions made under relevant legislation. • The Climate Adaptation Act (CAA), to address complex issues associated with managed retreat. 	<p>We will continue to keep a watching brief on the review and any resulting legislative changes.</p> <p>The Ministry for the Environment has commenced on the practice, capacity and training needed to ensure local government, iwi/hapū and Māori and resource management practitioners can transition and successfully participate in the new system.</p>

12 Service delivery method					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
That the existing services and methods of delivery will continue, except where this has been clearly stated in the LTP.	TCC	That future investigations or reviews under section 17 of the Local Government Act 2002 reveal more cost-efficient methods of delivering services and desired outcomes which may be preferred.	High.	Low to high - depending on the level of change. Changes in the delivery of services may have substantial impacts on budgets and financial forecasts and may require an amendment to the LTP.	<p>We will continue to seek collaboration opportunities with other councils.</p> <p>Council will pursue shared service options through BOPLASS Ltd (a company owned by us and other local councils to assist in the acquisition of services) and other methods, such as public/private partnerships. The Council will carry out periodic service delivery reviews to assess options.</p>

13 Inflation - Our costs					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
That our costs will rise in line with the Local Government Cost Index (LGCi) for operational and capital expenditure, as forecast by our economic advisor, BERL, as a faster rebuild scenario.	BERL - Table 4.14	The actual price of inputs and outputs will not increase at the rate assumed. BERL data not available in time for the production of the draft LTP	High.	Low to high - depending on the level of variation. Changes could have a significant financial impact on our costs.	Have sourced an alternative inflation assumption for the development of the LTP for Capex and Opex
Faster rebuild scenario					
	OPEX	CAPEX	TOTAL		
2019	3.0	2.9	3.0		
2020	1.9	2.0	2.0		
2021	0.4	0.1	0.3		
2022	3.1	3.3	3.2		
2023	2.9	3.0	2.9		
2024	2.9	3.0	2.9		
2025	2.9	3.0	2.9		
2026	2.9	3.0	2.9		
2027	2.7	2.8	2.8		
2028	2.8	3.0	2.9		
2029	2.8	3.0	2.9		
2030	2.8	3.0	2.9		
2031	2.7	2.8	2.7		
<i>20 year average %pa</i>	<i>2.3</i>	<i>2.4</i>	<i>2.4</i>		

15 Interest rates - Borrowing and interest rates					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
Average borrowing interest rates range from 3.00% to 7.00% for the period 1 July 2024 to 30 June 2034.	Estimated cost based on existing interest rate hedging and forecast market interest rates	Significant market interest rate fluctuations	High.	High – following a period of Official Cash Rate (OCR) increases it is expected that the reserve bank will start a cutting cycling. However, the timing and size of the reductions back to a neutral OCR is dependent on other economic factors. Interest costs could continue to increase in the short term and hold for longer than anticipated.	Maintaining around 70% of fixed interest rates for debt and interest costs are managed on a net basis.

16 Interest rates - Investment interest rates					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
Average investment interest rates range from 2.00% to 7.00% for the period 1 July 2024 to 30 June 2034.	Based on forecast market deposit interest rates.	Significant market interest rate fluctuations.	High.	Low – relatively small impact due to deposit levels.	Maintain detailed cashflows to manage the investment portfolio and interest is managed on a net basis.

20 Ownership of water infrastructure assets (waters out)					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
<p>TCC will not retain ownership of water supply, wastewater, and stormwater infrastructure assets and from 1 July 2026, Entity C will deliver Tauranga City's drinking water, wastewater and stormwater services.</p> <p>Central government is currently undertaking a reform of the way that three waters (wastewater, water supply and stormwater) are managed in New Zealand. The Water Services Entities Act 2022 has established the new water services entities, expected to provide services from 1 July 2024, and Chief Executives have been appointed to the entities.</p> <p>On 13 April 2023 the government announced its reset plan for its Three Waters Reform programme, now named Water Services Reform. Notable changes have been made on the timeline of the reform and the framework of the programme. Changes include increasing the number of Water Services Entities from four to 10, and a new 'go-live' date for</p>	<p>Department of Internal Affairs, Three Waters</p>	<p>There may be unanticipated material changes to the legislative landscape that cause significant changes to what we do and how we pay for it.</p> <p>A change in government direction could result in a different model being adopted for water services, where assets are retained by the Council, requiring significant cost and debt implications to maintain these assets and meet the required standards.</p>	<p>High. With a central government election in October 2023 and noted intention from the Opposition to keep water assets in Councils' control, uncertainty is high around what water services will look like from 1 July 2024.</p>	<p>High - changes could have a significant financial impact on the way we operate. The removal of the three waters capital programme and debt would materially assist the financial sustainability of TCC, however would affect other areas of the business due to overhead allocations.</p> <p>A change in government direction resulting in waters assets being retained would materially affect the financial sustainability of TCC. Debt would need to be reduced through debt retirement charges.</p>	<p>The projects contained in the LTP have been based on the basis that Entity C will carry out three waters services from year three onwards.</p> <p>Modelling will be carried out to prepare for a variety of scenarios resulting from the uncertainties around the reform.</p>

<p>these entities that will occur in a staged approach from early 2025 to 1 July 2026, rather than the original start date of 1 July 2024 for all entities. With this reset, Tauranga's water services will now transition to the newly announced Water Services Entity C (Bay of Plenty), alongside Western Bay District Council, Whakatāne District Council, Rotorua Lakes Council, Kawerau District Council and Ōpōtiki District Council.</p> <p>The Opposition has released its 'Local Water Done Well' plan which would disestablish the new water entities, and establish a Water Infrastructure Regulator to set and enforce standards for Councils' investment and maintenance of vital water infrastructure. This LTP document has been prepared on the basis that Council's management of these services will not continue from year three onwards.</p>					
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29 Project costings					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
That project costs will not exceed those set out in the LTP.	TCC	Costs for some projects listed in the LTP are estimates only. Project costs may exceed those planned for through the LTP.	Medium.	Low – High - depending on the level of variation. Significant changes to the cost of the project may make it unviable or lead to increased costs to Council.	Process and guidance in place for the development of project budgets, which also includes guidance on setting risk/contingency amounts

37 Deliverability of the capital programme					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
Capital programme is likely to remain similar if not slightly larger than previous LTP.	Capital programme budgets	<p>The capital programme continues to increase in value from previous years</p> <p>Significant changes continue being made to our organisation and procurement and delivery processes to achieve this.</p> <p>There are risks of delays in the early stages of consent and design, and in procuring delivery from contractors. If this happens work will be deferred to later years of the Long-term Plan and affected programmes of work will be rephased accordingly.</p> <p>The financial implication of such delays include lower borrowings and a reduction in the need for rates-funded debt retirement in early years, although it is expected that most of this would be undertaken in later years of the Long-term Plan.</p> <p>Some government funding from Crown Infrastructure Partners and NZTA depends on delivery within prescribed timeframes. Consequently, this work is being prioritised to be delivered on time.</p> <p>If delivery of the capital programme is delayed, then proposed outcomes will not be achieved in the timeframes originally intended.</p>	High.	<p>High - While there is a high chance that the full programme will not be delivered in the timeframes budgeted, it is likely that the delays for individual projects will not be significant. Costs of the total project and a delay in achievement of desired community outcomes may occur.</p> <p>Delays to projects where suppliers cannot be sourced, or prices are too high requiring longer negotiations or change in scope of projects. Leading to suboptimal community outcomes, higher costs to deliver the desired outcome</p>	<p>Processes in place to "rationalise" programme to ensure delivery teams are realistic about what can be delivered.</p> <p>Procurement strategies in place to provide efficiencies to deliver projects or programmes of work may occur.</p> <p>Continue to ensure project delivery resourcing is fit for purpose for future capital programme.</p>

41 Impact of growth beyond city boundaries					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
<p>The demand from external regions, sub regions, and districts using Council's infrastructure (e.g. transport network and community facilities) will slowly increase during the life of the LTP and 30 year Infrastructure Strategy.</p> <p>Overall, around 7-9% (7% in 2018; 8% in 2031; 9% in 2048) of all vehicle trips are "external" and of those heavy commercial vehicles (HCVs) represent 13-16% of trips over time (13% in 2018; 14% in 2031; 16% in 2048).</p> <p>Note that this does not include through-traffic, i.e. a vehicle that doesn't have an origin or destination within Tauranga that might travel from Whakatane to Hamilton. These would tend to be on the state highway network.</p>	<p>Tauranga Traffic Model Outputs – Beca (A14445926)</p> <p>Community Facilities Current State Assessment for Aquatic, Community Centres/Halls, Indoor Courts & Libraries (Feb 2020) provides a graphical overview of community facility use by those located outside of the city boundaries. This is based on an online survey which gives an idea of use but does not provide a statistically</p>	<p>That demand from external sub-regions and districts exacerbates the need for infrastructure beyond what is planned.</p> <p>That unavailability or unaffordability of land and housing in Tauranga City results in higher than expected traffic and activity from outside of the City. This could negatively impact timing and costs for transport network improvements.</p>	<p>Medium. Short term fluctuations may occur as periods of high and low growth is experienced through a projection period.</p>	<p>High - The potential financial impact of over or under investing in infrastructure based on modelling of the external traffic movements could be significant.</p>	<p>Provision is made for growth and bulk funds established to provide for citywide infrastructure and investment for intensification.</p> <p>Demand is monitored and used by Transport System Plan projects to identify the various improvements and the timing.</p>

	representative sample.											
Vehicle Type	2018				2031				2048			
	AM	IP	PM	ADT	AM	IP	PM	AADT	AM	IP	PM	AADT
All Cars												
Tauranga to Tauranga	32,638	32,987	36,161	466,470	38,406	38,894	43,007	550,737	45,900	46,507	51,661	659,077
Western Bay to Tauranga	1,927	1,324	1,508	20,430	2,540	1,682	2,031	26,474	3,255	2,148	2,778	34,302
External to Tauranga	852	719	1,037	11,153	1,041	875	1,304	13,689	1,335	1,152	1,807	18,159
All Heavy Commercial Vehicles (HCV)												
Tauranga to Tauranga	2,557	2,372	1,979	31,696	3,240	3,012	2,525	40,265	3,954	3,687	3,093	49,261
Western Bay to Tauranga	148	138	115	1,843	232	205	170	2,765	346	282	247	3,900
External to Tauranga	179	166	138	2,220	244	226	173	2,983	316	296	222	3,888
All Vehicles												
Tauranga to Tauranga	35,196	35,359	38,140	498,165	41,646	41,906	45,531	591,002	49,855	50,193	54,754	708,337
Western Bay to Tauranga	2,076	1,462	1,623	22,274	2,772	1,887	2,201	29,239	3,601	2,429	3,025	38,202
External to Tauranga	1,031	885	1,175	13,373	1,285	1,101	1,477	16,672	1,650	1,448	2,029	22,047

AM – Morning peak, IP – Inter peak, PM – Evening peak, ADT – Average daily traffic



Significant Forecasting Assumptions

2024-2034 Long-term Plan

Introduction

Forecasting assumptions identify important trends and projections and assess the risk and potential impact that are expected to affect the Council and community. These assumptions are essential in providing the basis for the Long-term Plan (LTP).

These assumptions will be revised prior to finalising the LTP, to ensure the most up to date and relevant information is referenced.

No.	Assumption	Effect
1	Population and household projections and locations	High
2	Demographic changes - age	Low-Medium
3	Demographic changes - ethnicity	Low - Medium
4	Demographic changes - socioeconomic	Low - Medium
5	Employment projections and sector projections	Medium
6	Climate change - natural hazards/ events	Medium - High
7	Climate change - stormwater events	Medium - High
8	Climate change - sea level rise	High
9	Land use changes (intensification)	Medium
10	Local Government reform	Medium-High
11	Resource management reform	High
12	Service Delivery Method	Low - High
13	Inflation - Our costs	Low - High
14	Inflation - Your costs	Low - High
15	Borrowing and interest rates	High
16	Investment interest rates	Low
17	Development Contributions	High
18	Waka Kotahi NZ Transport Agency Funding	High

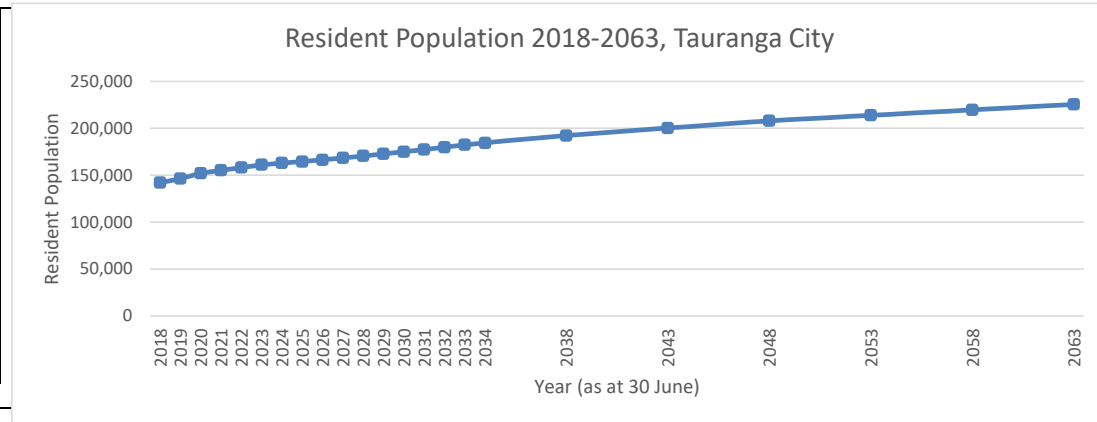
No.	Assumption	Effect
19	Sale of assets	Medium
20	Ownership of water infrastructure assets	High
21	COVID-19 recovery	High
22	Legislative/Regulatory environment	High
23	Funds available for new assets and replacement and upgrade of significant existing assets	High
24	Asset lifecycles and depreciation methods	Medium
25	Revaluation of assets	Low
26	Environmental Standards - Resource consent requirements	High
27	Leaky Homes Settlements	Low - High
28	Level of Service changes	Medium
29	Project costings	Low - High
30	Housing Infrastructure Fund (HIF)	High
31	Vested Assets	Low
32	Civil Defence/Emergency Preparedness/ Business Continuity	High
33	Credit Rating	Medium - High
34	Disruptive Technologies	Medium
35	Resourcing (staff)	Medium
36	Resourcing (suppliers)	Medium
37	Deliverability of the capital programme	High
38	Inclusion of Bay Venues Limited user fee revenue in key financial metrics	Low
39	Memorial Park - Recreation hub and aquatics facility	High
40	Funding for Civic Precinct Capital Programme	High
41	Impact of growth beyond city boundaries	High

Significant Assumptions Commentary

1 Population and household projections and locations					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
Population and household growth, and location of growth, align with SmartGrowth projections.	SmartGrowth - Tauranga City Population and Dwelling Projection Review 2022	Population and household growth will occur faster or slower than predicted, and/ or in different locations than assumed.	Overall level of uncertainty is medium. As with all long term growth projections there is a relatively high risk of short term fluctuations as periods of high and low growth is experienced through a projection period.	High - The potential financial impact of over or under investing in infrastructure based on modelling of the growth allocations, could be significant.	Continual monitoring and updating of the allocations in particular reduces risk and enables Council to respond where clear departures are evident or where assumptions change. The timing of projects will then be amended, as necessary.

1 Population and household projections and locations (continued)	
Tauranga Population increase - Tauranga City Population and Dwelling Projection Review 2022	
Year	Resident Population
2018	142,100
2019	146,400
2020	152,200
2021	155,200
2022	158,200
2023	161,206
2024	163,038
2025	164,549
2026	166,381
2027	168,442

2028	170,618
2029	172,689
2030	174,978
2031	177,376
2032	179,818
2033	182,434
2034	184,504
2038	192,190
2043	200,290
2048	207,990
2053	213,870
2058	219,680
2063	225,415



Demographic					
2 Demographic changes - Age					
Detail	Data Source (and rationale)	Risks	Level of uncertainty	Effect	Mitigation
That the proportion of the city population over 65 will continue to rise in line with projections from Stats NZ and the National Institute of Demographic and Economic Analysis.	Stats NZ Subnational Population projections 2018-2048 (2021 release) NIDEA - 2014 Review of Demographic and Labour Force Projections for the Bay of Plenty Region for the Period 2013 – 2063	A different population demographic profile is realised than the one that is currently projected.	At a national level the population is aging as is projected for Tauranga City. However, factors such as high house prices in Auckland, growth of the University, and change in immigration policy could potentially lead to more families and younger people moving to the area than currently assumed.	Low – Medium - A different age demographic may have a different impact on housing, recreation, health and service provision in particular. This may require alterations to our work programmes.	Continually monitor age composition of the population at each Census to see how this aligns with projections.

TCC Adjusted for Revised LTP Population									
Data Source	Year	Population by age group (years) at 30 June					Components of population change, five years ended 30 June		
		0-14	15-39	40-64	65+	Total (as at 30 June)	Natural increase	Net migration	Additional People
Stats NZ Data	2018	28,242	42,678	43,568	27,612	142,100	3,973	17,027	21,000
	2023	30,888	47,299	49,532	33,487	161,206	4,776	14,330	19,106
	2028	30,324	49,266	52,302	38,726	170,618	2,014	7,398	9,412
	2033	30,472	51,357	56,397	44,207	182,434	2,060	9,756	11,816
	2038	31,039	53,819	57,653	49,679	192,190	940	8,816	9,757
	2043	32,304	55,718	58,759	53,509	200,290	600	7,500	8,100
NIDEA Data	2048	33,840	56,541	60,725	56,884	207,990	200	7,500	7,700
	2053	33,511	57,124	61,920	61,314	213,870	-111	5,991	5,880
	2058	33,102	57,633	63,067	65,879	219,680	-370	6,180	5,810
	2063	32,612	58,067	64,163	70,573	225,415	-622	6,357	5,735

