Significant forecasting assumptions

A forecasting assumption is defined as something the Council accepts as being true for the purposes of future decisions and actions.

The Local Government Act 2002 requires councils to disclose in their 10 Year Plan the significant forecasting assumptions they have used to develop their Plan and the risks underlying the financial estimates. In cases where the level of uncertainty is assessed as being high, this has to be disclosed as well as an estimate of the potential effects on the financial estimates.

This section contains assumptions about the following matters:

Issue	Level of uncertainty of assumption	Significance of financial impact on overall position
1. Population & Household Growth	Medium	Medium
2. City Growth – Nature, Type & Location	Medium	High
3. Covid-19 Pandemic	Medium	High
4. Climate Change	Medium	Low
5. Natural Disasters & Adverse Weather Events	High	High
6. Services Provided by Council	High	High
7. Continuity of External Funding	High	Low
8. Sources of Funds for Future Replacement of Assets	Low	Low
9. Waka Kohahi (NZTA) Subsidy	Low	Medium
10. Airport Shareholding & Dividends	Low	Low
11. Revaluation of Property, Plant & Equipment Assets	Low	Low
12. Asset Lives	Low	Low
13. Depreciation	Low	Low
14. Inflation	Low	Low
15. Interest Rates for Borrowings	Low	Medium
16. Resource Consents (especially wastewater discharge)	High	High
17. Turitea Windfarm	Medium	Low
18. Weathertight (Leaky) Homes Claims	Low	Low
19. Insurance	Low	Low
20. Earthquake-prone Buildings	Medium	High
21. Regional freight ring road including an additional Road Crossing of Manawatū River	Medium	High
22. Legal Expenses	Low	Low
23. Delivery of Services Reviews	Low	Low
24. Residential Subdivision	Medium	Medium
25. Drinking Water Standards	Medium	Low
26. 3 Waters Reform	High	High
27. Construction Industry Capacity	High	High

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
1. Population and household growth The population will increase as follows: • 10 year projection 2021–31, 1089 people per annum at 1.1% • 20 year projection 2021–41, 1039 people per annum at 1.0% • 30 year projection 2021–51, 1002 people per annum at 1.0% The number of households will increase as follows: • 10 year projection 2021–31, 504 households per annum at 1.4% • 20 year projection 2021–41, 459 households per annum at 1.2% • 30 year projections 2021–51, 432 households per annum at 1.1% This is a medium growth population and household projection from Infometrics plus the additional margins required by the National Policy Statement for Urban Development. These population projections assume the city will retain its status as having one of the lowest median ages (34.2 in 2020 compared with the national median age of 37.4) but, as is projected for the rest of New Zealand, there will be a gradual ageing of the population. The difference between population and household growth is because of the reduction in average household size.	City growth is at significantly different rates than assumed.	Medium	If growth is less than predicted, then some projects will be deferred and expenditure will be lower than forecast. If growth is higher than predicted, then some projects will go ahead earlier than forecast and expenditure will be higher than forecast. Higher or lower expenditure will impact on debt levels, the total rates requirement and the timing of the receipt of development contributions. Actual growth and changes to the makeup of the city's population will be monitored and any changes will be reflected in subsequent Annual and 10 Year Plans.

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
Any change in the makeup of the city's population in terms of ethnicity or age will have minimal impact on the activities to be provided by the Council. Employment growth of 1.2% per annum (688 jobs) for the first 10 years and 1.0% per annum (621 jobs) for the next 20 years.			Council's target is 1,200 jobs per year, a growth rate of 1.9%.
2. City growth – nature, type and location The Strategies and Plans assume that during years 1–10, greenfields residential growth will continue at Aokautere, be centred on the Whakarongo area and make a start in the Kakatangiata (formerly called City West) area and at Ashhurst. New industrial growth will be focused on the extended northeast area of the city, the proposed KiwiRail freight hub and in Longburn. Owners of private infrastructure in Longburn are assessing options to upgrade it to the standards required for it to be vested in the Council. This may involve the Council undertaking some works itself to enable development and seek to recoup the costs through development contributions or some other means. The types of residential development are assumed to remain constant throughout the next 30 years, based on a preference for greenfields development of 50%, infill development of 38%, and rural residential development of 12%. These percentages exclude the construction of apartments and housing units in retirement villages.	Privately initiated development is approved in areas other than those planned for by the Council or earlier than anticipated.	Medium	The Whakarongo residential area is zoned and available for development – development is being led by the Council's own subdivision. Work is underway on a structure plan for further development in Aokautere to ensure co-ordinated outcomes in the area. Kakatangiata is a large area that will provide significant growth capacity for the next 30 years. Four small urban additions are being investigated at Ashhurst. High class soils, flooding and liquefaction risks and infrastructure costs will need to be weighed up against housing demand, and the requirement for Council to ensure there is sufficient capacity to meet projected demand. This will necessitate Council enabling and promoting higher density development opportunities to ensure efficient use of land is maximised, whilst avoiding or mitigating natural hazard and productive land constraints. While KiwiRail are in the process of securing land for the proposed freight hub, they are yet to secure funding to deliver it. If such development is approved, it may result in a need for increased infrastructural investment by the Council. This may lead to the Council needing to reprioritise other planned expenditure so that it can operate within its own prudent limits. It is difficult to predict how the market will respond to new housing choices and whether traditional infill is reaching a natural saturation point.

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
3. Covid-19 Pandemic There will be no long-term significant economic or social disruption such as increased unemployment, homelessness, lack of income or reduced personal wellbeing that adversely affects residents of Palmerston North as a result of Covid-19 or any subsequent pandemic. In the event of a lockdown such as occurred in 2020 the Council will continue to be able to deliver essential city services. Although there may be disruptions to the worldwide supply chains for some goods they will not be so significant as to disrupt the Council's ability to deliver essential services.	That the present Covid-19 worldwide crisis continues unabated (despite the development of vaccines) and it becomes a significant threat to people and the economic order in Palmerston North.	Medium	The Palmerston North economy is diverse and has significant activity funded by central and local government. To date this has helped shield the City from the worst of the economic impacts of the world-wide Covid-19 pandemic. Although the Council's revenue was reduced during the period of national lockdown in 2020 and subsequently most revenue streams have now been restored to near previous levels. The Council was able to redirect staff resources to cope with working from home and continue to deliver essential city services. If necessary, the Council has the ability to modify its priorities through the Annual Plan process each year.
4. Climate change In the longer term, increased frequency and intensity of storm events and possibly, longer drought period. Efforts will be made to reduce Palmerston North's greenhouse gas emissions by 30% over the next 10 years, in line with targets set by Council and central government.	That changes to climate will be more significant than assumed. That new levels of service and/or standards of living expectations will require a significant expansion in energy use and hence emissions. That the targets set	Medium	Provision is being made to adapt infrastructure for climate change based on NIWA predictions to 2090, given the long life cycle of assets. If they are different from what is predicted this will be assessed as they become evident. Work is required to better understand the greenhouse gas emissions profile of Palmerston North, and to better understand what actions are required to meet the set targets. Further, while new technologies such as LED lights and electric vehicles (EVs) create significant opportunities for greater energy efficiency and, therefore, cost and emission reductions, many emerging technologies are emission-intensive and will require significant offset if implemented widely. Palmerston North's emissions will also depend on future commodity

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
	will become more ambitious and enforced, as is intended under the COP21 Paris Accord signed by New Zealand.	Medium	prices, particularly for oil, and whether the current trend of falling EV and renewable energy prices continue.
5. Natural disasters and adverse weather events There will be no significant natural disasters such as storms, floods, earthquakes and volcanic eruptions that damage city infrastructure. There will be no adverse weather events that cause significant damage to the city's infrastructure, including parks.	That there will be a significant natural disaster or adverse weather event.	High	The Council currently contributes to the Local Authority Protection Programme (LAPP) and has the ability to source commercial infrastructure insurance if required. The LAPP fund was designed to cover 40% of the repair costs for certain damaged infrastructure. In certain circumstances, central government may fund the remainder of the costs, although this is subject to review by the Government. Roads and bridges are not covered by this programme, with the only relief available being from NZTA, which funds some of these repair costs. In the event of a disaster, the Council has the flexibility to fund uninsured repair costs by re-prioritising its capital expenditure programme and utilising available lines of credit. If there is an adverse weather event, the Council will need to reprioritise its operating budgets to cope or, in the short-term, utilise established lines of credit.
6. Services provided by council Unless otherwise stated in the individual activity sections, service levels are generally assumed to remain the same. Increases to service levels are shown in the individual activity sections as operating and capital programmes. It has been assumed there will be no unexpected changes to legislation or other external factors that alter the nature of services provided by Council.	That there will be some unexpected change to legislation or other factors.	High	In the past, changes have usually taken time to be developed then passed into legislation. There continues to be debate about the structure of local government (for example, the possibility of larger regional groupings) and the possible centralisation of some resource management functions but these have not developed to specific proposals in this region. Other possibilities for change include the water and roading activities. If these are to be progressed, costs and benefits will be assessed and an amended 10 Year Plan prepared if

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
			necessary. The government is currently reviewing the way 3 waters (drinking water, wastewater and stormwater) is delivered – refer to assumption 26.
7. Continuity of external funding Unless otherwise stated in the individual activity sections, it is assumed that external funding sources will continue at present levels for the duration of the 10 Year Plan. It is also assumed that the Council will be able to borrow at the assumed levels. No provision has been made for any possible additional funding from central government for renewal and resilience programmes for the three waters.	That there is a material change to the way Council services are used or charged for that adversely impacts on revenue. That qualifying criteria or subsidy rates will be changed and/or the Council's access to borrowing becomes restricted.	High	Any changes to the way Council services are charged for will be planned with consideration for the Revenue and Financing Policy and the impact on revenue. Use patterns are monitored and any change in use that impacts on revenue will be considered in subsequent Annual and 10 Year Plans. Lower external operating revenue would lead to an increased rates requirement. Qualifying criteria and subsidy ratios have traditionally been stable and there is no indication they are likely to be changed. If they are, Council will reassess its commitment to undertaking the projects concerned. The Council has strong relationships with the financial markets and access to the Local Government Funding Agency to raise cost-effective funding, and will manage its financial arrangements in a manner designed to protect its AA S&P Global credit rating. However it is unlikely, under the present funding arrangements, funders would provide the Council sufficient funding to undertake the Nature Calls project.
8. Sources of funds for future replacement of assets Adequate funding will be provided to replace assets as scheduled. The funding approach is detailed in the Revenue and Financing Policy.	That a particular funding source is unavailable.	Low	As the Council operates a central treasury function, should one source of funding be unavailable for asset replacement, a further option would be available. See the comments above regarding funding the Nature Calls project.

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
9. Waka Kotahi (NZTA) subsidy The present Waka Kotahi New Zealand Transport Agency financial assistance rate for the Council is 51% of qualifying expenditure. Waka Kotahi subsidies have been assumed at this rate throughout the term of the Plan and for the 30 years of the Infrastructure Strategy. A conservative view has been taken about which programmes will meet the qualifying criteria for subsidy.	Changes in subsidy rate and variation in criteria for inclusion in subsidised works programmes.	Low	In the past, the Government has demonstrated a long-term commitment to funding roading infrastructure that meets the funding agency's benefit/cost ratios. However, in recent times Waka Kotahi has had significant commitments to a number of very large projects throughout NZ, meaning it has been more difficult to obtain funding for capital projects in other areas. Over the 10 years of the Plan, it has been assumed that $xx million of new capital programmes will attract Waka Kotahi funding of $xx million. In the event this funding is not secured, the Council will review its priorities and may choose to delay projects until funding can be obtained.
10. Airport shareholding and dividends No dividend will be received from Palmerston North Airport Ltd (PNAL) for the period of the 10 Year Plan.	That the actual dividends may be received.	Low	PNAL's ability to pay dividends depends on the company's net surplus each year. In a policy sense the Council's expectation is that PNAL will pay a dividend of 40% of after-tax profits. PNAL's business was severely impacted by the downturn in air travel due to Covid-19 and the Council has agreed that in the immediate future dividends will not be expected but that any surpluses will be re-invested in the business.
No additional share capital will be required by the company in the foreseeable future.	That the company requires additional capital.	Low	PNAL has plans for significant capital development for the terminal and for sub-division of non-airside property. Current expectations are that the company will be capable of funding this through additional borrowing though servicing this will impact on the company's operating surpluses in the short to medium term. PNAL had a debt to equity ratio of 22:78 at 1 July 2020 and at this stage the company's plans for future years are under review post Covid. The Council has the ability to consider business cases put forward by the company and to reorganise its priorities in future Annual and 10 Year Plans.

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
11. Revaluation of property, plant and equipment assets Property, plant and equipment assets will be revalued using the following cycle: Leisure assets – years 1, 4, 7 and 10 Roading and parking – years 2, 5 and 8 Water and waste – years 2, 5 and 8 Property – years 1, 4, 7 and 10 The revaluations have been based on current industry pricing and the Business and Economic Research Ltd (BERL) forecasts of price level change adjusters. Revaluation movements will be shown in the Statement of Comprehensive Revenue and Expense.	Actual revaluation results differ from those in the forecast.	Low	Where the actual inflation rate is different from what has been forecast, the actual revaluation will be different from the forecast. This would lead to depreciation being higher or lower than forecast, but as the Council does not directly fund depreciation, there will be no direct impact on ratepayers. Annual Plans will reflect the outcomes of actual revaluations, as will the new 10 Year Plan produced every three years.
12. Asset lives Useful lives of assets are as recorded in asset management plans or based on professional advice. These are summarised in the depreciation note within the accounting policies. The 30 Year Infrastructure Strategy also contains summarised information about the roading, water, wastewater, stormwater, recreation and built property assets.	That assets wear out or are decommissioned earlier than estimated.	Low	Asset life is based on estimates of engineers, valuers and asset managers. In the event that assets need to be replaced in advance of the assumption, depreciation and interest costs may increase. The extent of the increase will depend on the nature and value of the asset. The renewal programme is reviewed annually, and any changes to planned timing of renewals will be reflected in the Annual Plan, with adjustments to funding arrangements if required.
13. Depreciation Depreciation has been calculated on asset values at their latest revaluation date, and on additions at cost afterwards. It is assumed that: • existing depreciation rates will continue • new assets' depreciation will be the result of their estimated lives and values	That more detailed analysis of planned capital works once complete may alter the depreciation expense. That asset lives may be extended due to	Low	Council has asset management planning and upgrade programmes in place. Asset capacity and condition is monitored, with replacement works planned according to standard asset management and professional practices. Actual depreciation is calculated according to normal accounting and asset management practices, which require depreciation to start once an asset is commissioned. However, the planning assumption is considered reasonable given the level of uncertainty about the likely timing of the

<table>
<tr><th>2021-31 10YP assumption</th><th>Risk</th><th>Level of uncertainty of assumption</th><th>Reasons and financial effect of uncertainty</th></tr>
<tr><td>depreciation on new and renewal programmes will impact in the year following the capital programme.</td><td>new technology improving asset lives, or reduced due to assets being decommissioned sooner than originally assumed.</td><td></td><td>commissioning of each asset. Also, from a funding perspective, the Council bases its funding decisions on the forecast average levels of renewals, so the forecast level of depreciation does not affect this.</td></tr>
<tr><td>14. Inflation
Costs and revenues for 2021/22 have been predicted. Beyond this, inflation has been included in the 10 Year Plan using the BERL mid-scenario forecasts of cost adjustors, issued in September 2020, as follows:
<table>
<tr><th>Year ending</th><th>Roading</th><th>Planning & regulation</th><th>Water & environ ment</th><th>Community activities</th></tr>
<tr><td>Jun 2022</td><td>3.3%</td><td>2.7%</td><td>6.0%</td><td>3.2%</td></tr>
<tr><td>Jun 2023</td><td>3.1%</td><td>2.5%</td><td>3.5%</td><td>2.7%</td></tr>
<tr><td>Jun 2024</td><td>3.0%</td><td>2.3%</td><td>2.6%</td><td>2.5%</td></tr>
<tr><td>Jun 2025</td><td>2.9%</td><td>2.2%</td><td>2.7%</td><td>2.4%</td></tr>
<tr><td>Jun 2026</td><td>2.9%</td><td>2.2%</td><td>2.9%</td><td>2.5%</td></tr>
<tr><td>Jun 2027</td><td>2.9%</td><td>2.2%</td><td>2.8%</td><td>2.4%</td></tr>
<tr><td>Jun 2028</td><td>2.9%</td><td>2.2%</td><td>3.2%</td><td>2.5%</td></tr>
<tr><td>Jun 2029</td><td>2.9%</td><td>2.2%</td><td>3.3%</td><td>2.6%</td></tr>
<tr><td>Jun 2030</td><td>2.9%</td><td>2.2%</td><td>3.4%</td><td>2.6%</td></tr>
<tr><td>Jun 2031</td><td>2.9%</td><td>2.2%</td><td>3.1%</td><td>2.4%</td></tr>
<tr><td>Remaining 20 years of Infrastructure Strategy</td><td>2.5%</td><td>2.0%</td><td>2.5%</td><td>2.5%</td></tr>
</table></td><td>That actual inflation differs from what has been predicted and that decisions are made based on predicted inflation levels.</td><td>Low</td><td>Where the actual inflation rate is different from what has been forecast, the cost of projects and expenditure will be different from the forecast. In the two years following the adoption of the 10 Year Plan, this will be addressed through the Annual Plan process, and in the third year a new 10 Year Plan is produced.</td></tr>
</table>

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
15. Interest rates for Borrowings Interest on term debt is calculated using an interest rate of 2.8%. To allow for anticipated timing of capital expenditure, interest is provided for on only 50% of forecast new loan amounts in the year of the capital expenditure, but on the full amount in each year thereafter. For 2021/22 interest is provided for on 33% of the forecast new loan amounts.	That the interest rate will differ from what has been used in the calculations.	Low	This will be managed through the Treasury (incorporating Liability Management and Investment) Policy. The Council has hedging strategies to protect against upward movement in interest rates. It currently has an AA S&P Global credit rating and utilises the Local Government Funding Agency – both arrangements mean the Council has access to markets at prime rates. If the average cost of borrowing increased by 0.5% the interest expense for each year of the 10 Year Plan would increase as follows: 2021/22 $ million 2022/23 $ million 2023/24 $ million 2024/25 $ million 2025/26 $ million 2026/27 $ million 2027/28 $ million 2028/29 $ million 2029/30 $ million 2030/31 $ million There would be an equivalent reduction in each year if the average cost of borrowing was 0.5% lower than assumed.
16. Resource consents (especially wastewater discharge) Conditions of resource consents held by the Council will not be altered significantly, except for the discharge consent for the wastewater plant. In this case, it has been assumed that the new consent will require the Council to invest significantly to upgrade the plant with consequential ongoing operating cost impacts.	That resource consent conditions are altered in a way that is different from what was assumed.	High	Council's most significant resource consent is for the discharge from the main wastewater treatment plant to the Manawatū River, which is due to expire in 2028. A condition of the consent is that the Council will complete a best practicable option review for its wastewater treatment and disposal by June 2021 and lodge a complete consent application by June 2022. Financial provision of nearly $6 million has been made in the next six years to undertake investigations and manage the consent application process relating to this project.

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
			A range of potential options has been shortlisted and a preferred option is to be selected by June 2021. For the purpose of the 10 Year Plan, it has been assumed that a solution will be provided with a capital outlay of $350 million (plus inflation) and that the expenditure will be incurred between 2023 and 2027 In addition, it has been assumed there will be additional operating costs of $xx million per annum from 2028 on top of the debt servicing and repayment costs. The Council recognises that under present funding arrangements it is unlikely to be able to borrow the full sum assumed will be required for this project.
17. Turitea Windfarm Construction of Mercury's 60 turbine windfarm (with 30 on Council's Turitea Reserve land) will be 50% complete and operational by July 2021 & 100% complete and operational by January 2022. Resulting from the contract Mercury will pay the Council at least $0.5 million during 2021/22 and $0.8 million p.a. thereafter. Any such revenue received from Mercury is planned to be used to fund operating costs for city reserves – this complies with the purposes outlined in the Reserves Act 1977.	That windfarm energy production is lower than assumed and/or wholesale electricity prices are lower than assumed.	Medium	It is assumed the 30 turbines will generate 420 Gwh p.a. A minimum annual payment of $0.76 million would be payable based on a 12 month rolling average wholesale price of $62 per Mwh. If they generated only 350 Gwh the minimum annual payment would be $0.63 million. The current rolling average wholesale price is approximately $90 per Mwh and at this rate revenue would total $1.1 million (for 420 Gwh) or $0.95 million for 350 Gwh.

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
18. Weathertight (leaky) homes claims The Council will continue to receive claims relating to leaky homes and that it will be required to pay contributions toward settlement. Any uninsured claims that are paid will be charged against the balance of the previously funded provision.	That the number of claims and/or the level of settlement per claim is significantly higher than the levels assumed.	Low	The Council's exposure to new claims is uninsured. For several years, the Council funded a provision for future claims. The balance of this provision is expected to be approximately $xx million at 1 July 2021 and to be adequate to cope with claims in the foreseeable future. If the Council is faced with paying more than remains in the provision in any particular year, it will determine at the time whether it has the financial capacity to fund from operations or whether short-term borrowing will be required. The appropriateness of the level of expenditure assumed will be reviewed in each year's Annual Plan.
19. Insurance The Council will continue to be able to obtain adequate insurance cover for its infrastructure and property assets as well as for public liability and professional indemnity at terms and cost that are affordable. Material damage re-instatement cover will not be obtainable for the Council's properties that are classified as earthquake prone.	That the terms of insurance cover available become unreasonably restrictive and/or the premium cost is significantly higher than assumed.	Low	The significant earthquakes in New Zealand in the last decade have impacted on the terms and cost of insurance cover. The markets have largely stabilised. To date, the Council has retained its membership of the Local Authority Protection Programme, but each year it assesses other market options for underground infrastructure insurance. There continues to be uncertainty about the future basis of calculating fire service levies to fund Fire and Emergency New Zealand. Due to the number and nature of claims against local government it is becoming more difficult to obtain affordable liability cover for professional indemnity.
20. Earthquake-prone buildings The Council will need to incur significant expenditure to address any shortcomings in the standard of its buildings	That when the upgrade work starts, the actual cost will be significantly more	Medium	Council's properties have been assessed, beginning with those that are the most significant (in terms of size and public exposure) and those considered to be the most likely to be at risk.

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
in relation to earthquakes. The Council will upgrade each of its buildings to a minimum of 34% of the New Build Standard (NBS) and that this will be done progressively over a 15-year period. Currently nine of the Council's buildings and facilities have been assessed as earthquake prone including the Civic Administration Building, Te Manawa, The Regent, the library, Square Edge, crematorium, Caccia Birch, Keith St historic power station & wastewater treatment plant.	than is currently contemplated.		Preliminary assessments have been made of the forecast cost of upgrading the buildings to meet a minimum of 34% of the NBS. Given what is known about the buildings at this stage, a proposed programme of works has been prepared (totalling approx. $150 million) to progressively upgrade the buildings over a 15-year period. As more information becomes available, the Council will reassess budget priorities. The outcomes of the civic and cultural precinct masterplan work will influence decisions about the nature of the investments to be made in relation to the library and Te Manawa. At all times the Council will have regard for the safety of occupiers and public users of the properties.
21. Provision of a regional freight ring road including an additional road crossing of the Manawatū River There will be progress made with the Palmerston North Integrated Transport Initiative (PNITI) to guide investment in strategic transport.	That regional economic growth may be hindered by the lack progress with implementing the PNITI.	Medium	Council has been collaborating with Waka Kotahi, Horizons and neighbouring local councils on the proposed regional freight ring road for more than a decade. Waka Kotahi have developed the Palmerston North Integrated Transport Initiative (PNITI) to guide investment in strategic transport in the city. PNITI is a package of interventions to support freight and distribution potential of the region, assist in building the region's resilience and provide a safer, more cost effective connection between some of the regions key industrial areas whilst improving access and safety for Palmerston North residents. PNITI considers a programme of investment including a regional freight ring road, an additional Manawatu River crossing, improvements around Bunnythorpe, connections to the North East Industrial Zone, accessibility and safety improvements throughout the city. Council's initial focus is on delivering the regional freight ring

2021-31 10YP assumption	Risk	Level of uncertainty of assumption	Reasons and financial effect of uncertainty
			road. Delivering the PNITI and a further river crossing will only be viable for the Council with assistance from Waka Kotahi.
22 Legal expenses The Council will not be required to incur significantly more legal expenses than has been the case in recent years.	That the Council needs to incur more legal expenses than assumed.	Low	The nature of Council's activities (especially in the resource management and regulatory areas) means legal expenses are often incurred to develop and/or defend Council's position. The actual position will be monitored and, if necessary, changes made to operating budgets to cope.
23. Delivery of services reviews The service reviews required under section 17A LGA 2002 will not lead to major changes to the governance, funding and delivery of Council's infrastructure or services.	That following the reviews, the Council may decide to change certain current service delivery arrangements.	Low	Changes would be proposed only if they were expected to produce a more effective and efficient outcome for citizens and ratepayers. If a change is proposed, the Council will be able to decide on any transitional arrangements to be made. The nature and extent of any public consultation undertaken will be assessed against the Council's Significance and Engagement Policy.
24. Residential subdivision The Council will progressively develop and sell 9.63ha of its land in the Whakarongo growth residential zone and that the subdivision will provide a net return of more than $6 million – these proceeds will be used to fund progressive renewal of the Council's social housing portfolio. Other land owned by the Council will be assessed for potential development for residential housing.	That development costs are higher than assumed (with additional requirements identified through detailed design or higher contracting costs). That the variability of the housing market will impact on the sale price and period taken to sell.	Medium	Construction of stage 1 of Council's subdivision in Whakarongo (Tamakuku Terrace) has commenced and resource consent is being sought for stage 2. Based on the present market demand for greenfields sites it is anticipated these sections should sell quickly.
25. Drinking water standards	That the expected changes to the	Medium	The city's water supply is fully chlorinated. Provision has been made in the 10 Year Plan for programmes to add an

<table>
<tr><th>2021-31 10YP assumption</th><th>Risk</th><th>Level of uncertainty of assumption</th><th>Reasons and financial effect of uncertainty</th></tr>
<tr><td>The Council has made adequate financial provision to accommodate any changes that may be made as a result of the latest review of the NZ Drinking Water Standards.</td><td>standards will impose requirements that are more expensive and/or needed sooner than provided for.</td><td></td><td>additional layer of barrier protection (UV treatment) to its water treatment to maintain compliance with the standards. It may be necessary to add storage to the city's bore sites so that free available chlorine contact time can be provided to the water from the bores.

The provisions will be reviewed when the updated standards are known, and the Council will be able to reassess the timing and/or scope of the work required when preparing future Annual and 10 Year Plans.</td></tr>
<tr><td>26. Three Waters Reform

Council will continue to have legislative responsibility for delivering the water, wastewater and stormwater activities over the term of the 10 Year Plan.

Over the period of the 10 Year Plan Council has assumed the following in relation to these activities:

<table>
<tr><th>$000</th><th>Water</th><th>Wastewater</th><th>Stormwater</th></tr>
<tr><td>Operating revenue (incl rates)</td><td></td><td></td><td></td></tr>
<tr><td>Direct operating costs</td><td></td><td></td><td></td></tr>
<tr><td>Council Overheads allocated to activity</td><td></td><td></td><td></td></tr>
<tr><td>Interest costs</td><td></td><td></td><td></td></tr>
<tr><td>Depreciation</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
</table></td><td>That responsibility for some or all of these activities will transfer to another entity.</td><td>High</td><td>Central government is proposing major reform of the delivery of the three waters activities. Like other territorial authorities the Council has entered a Memorandum of Understanding with the Crown to work together to identify an approach to service deliver reform that considers the following design features:

Water service entities that are:

Of significant scale (most likely multi-regional) to enable benefits from aggregation to be achieved over the medium to long term;

Asset owning entities, with balance sheet separation to support improved access to capital, alternative funding instruments and improved balance sheet strength; and

Structured as statutory entities with appropriate and relevant commercial disciplines and competency-based boards;

Delivery of drinking water and wastewater services as a priority, with the ability to extend to stormwater service provision only where effective and efficient to do so;

Water entities would be publicly owned entities, with a preference for collective council ownership;

Mechanisms for enabling communities to provide input in relation to the new entities.

The three waters are a core part of the Council's current responsibilities.</td></tr>
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<tr><th>2021-31 10YP assumption</th><th>Risk</th><th>Level of uncertainty of assumption</th><th>Reasons and financial effect of uncertainty</th></tr>
<tr><td><table>
<tr><td>Book value of assets (as at 30 June 2031)</td><td></td><td></td><td></td></tr>
<tr><td>Portion of Council debt associated with activity (as at 30 June 2031)</td><td></td><td></td><td></td></tr>
<tr><td>Budgeted capital renewals</td><td></td><td></td><td></td></tr>
<tr><td>Budgeted new capital</td><td></td><td></td><td></td></tr>
</table></td><td></td><td></td><td>The present design draft assumes a new entity would assume all of the income and expenditure relating to the activities transferred but at this stage it is not clear whether the Council would continue to have a role as a shareholder or an agent to raise the operating revenue for the entity. There would likely be second level impacts on the Council that would need to be analysed when assessing any proposal received.
Once the proposals become more certain the Council will need to consider preparing an updated 10 Year Plan. At this stage it is not clear whether this will happen as part of the next three yearly planning cycle or before that.</td></tr>
<tr><td>27. Construction industry capacity

The construction industry will have the capacity to undertake the Council’s programmes in addition to the other large public and private projects planned for the next 10 years.</td><td>That there will not be sufficient capacity to undertake the work within the timeframes or budgets that have been assumed</td><td>High</td><td>There is a huge pipeline of projected public and private work scheduled for the region. The Council is already experiencing some difficultly obtaining contractors for programmed works. In recognition of this some non-critical programmes have been scheduled later.

Council will be proactively working with contractors to find ways of reducing the level of uncertainty.</td></tr>
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