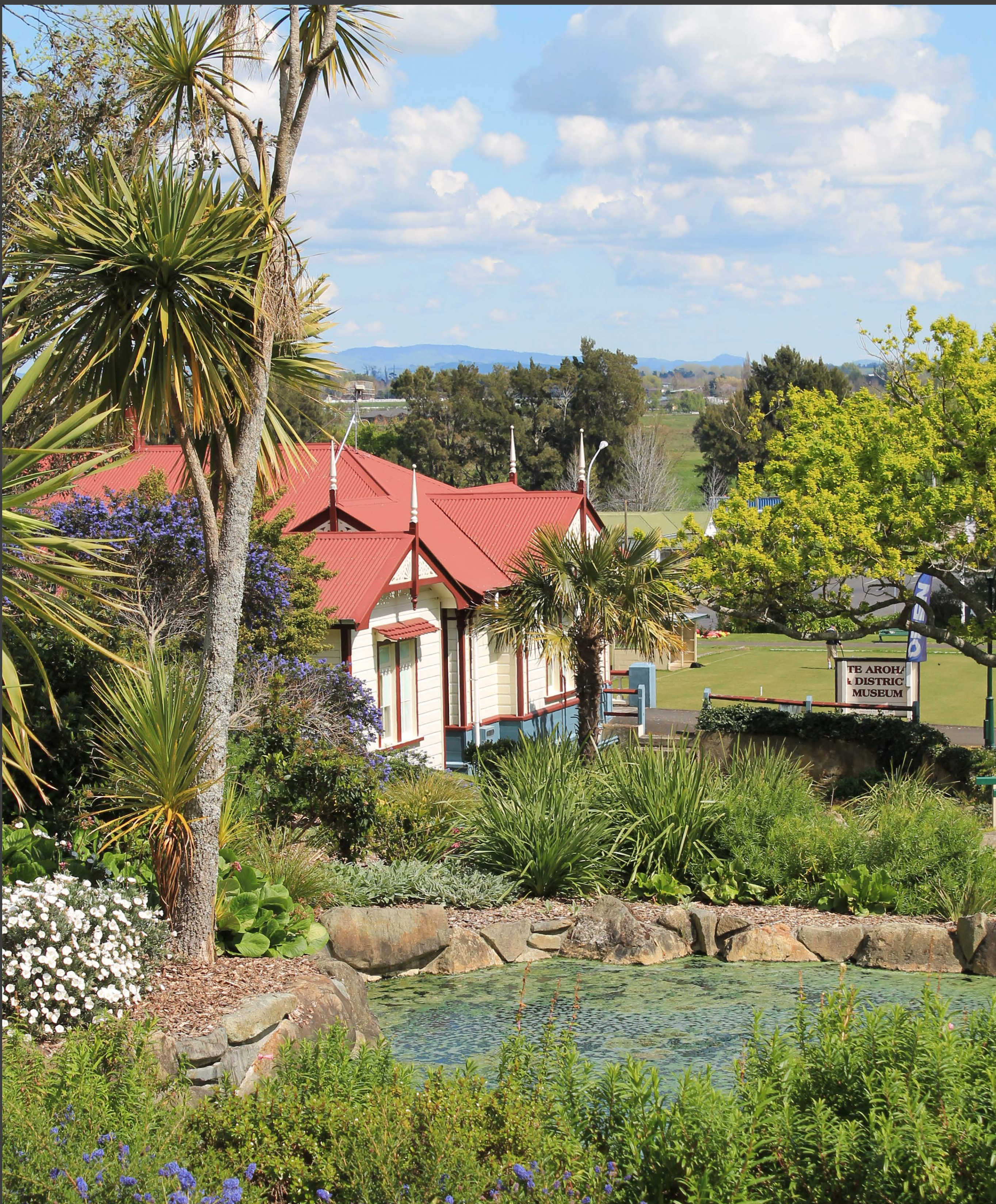
KEY ASSUMPTIONS



OUR SIGNIFICANT ASSUMPTIONS

When we are planning ahead we have to make some assumptions about what is going to happen in the future. We can never know for certain what is going to happen, so we make these assumptions based on the best information we have available to us. Below are the assumptions we have made for the Long Term Plan 2018-28, Financial Strategy 2018-28, and the Infrastructure Strategy 2018-48. Our significant forecasting assumptions need to be:

- realistic
- evidence-based
- consistent with each other
- applied consistently across the Long Term Plan.

There is a risk that these assumptions could prove to be incorrect over time. Where the effect of an assumption being incorrect may have a significant financial impact or an impact on the levels of services, we have identified these below.

	Infrastructure Strategy					
Forecasting assumption	**Growth and demand**	**Lifecycle of assets**	**Levels of service**	**Risk**	**Level of uncertainty**	**Reasons for and financial effect of uncertainty**
Borrowing						
We have assumed that we will have ready access to loan funds at competitive interest rates. Our strong balance sheet supports this assumption, and the Local Government Funding Agency provides more certainty and competitiveness in the local government sector. The projected average total cost of borrowing for each of the 10 years of the Long Term Plan is shown below. These rates include the effect of forward starting interest rate swap contracts that are currently in place for years 1 to 6 of the plan. The interest rate projection is driven by the current implied market 90-day bank bill rate over the next 10 years.	✓			Interest rates are higher than expected.	Medium	There is no certainty that the forecasted interest rates will be accurate. If the forecasted interest rate proved to be significantly understated, then additional funding may be required to maintain existing levels of service. An increase in the interest rate of 1% would increase interest costs by $321,000 and rates by 1.01%.

2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
4.03%	3.94%	4.02%	4.24%	4.42%	4.54%	4.63%	4.73%	4.81%	4.86%

Inflation						
The forecasted figures in this Long Term Plan have been adjusted to include inflation expectations over the next 10 years. The Infrastructure Strategy, which has a 30 year horizon, is also adjusted for inflation. Inflation forecasts were provided by Business and Economic Research Limited (BERL) in September 2017, who was contracted by the Society of Local Government Managers to provide such forecasts specifically for the local government sector for this purpose. We have used the Local Government Cost Index (LGCI) which has been developed based on components of both operating and capital expenditure. The inflation factors below are applied on a cumulative basis. The average inflation factor applied over the 10 years of the Long Term Plan is 2.13%. The average inflation factor used in the development of the Infrastructure Strategy for the following 20 years is 2.4%.	✓			Inflation occurs at rates much different than forecast.	Medium	Inflation is affected by external economic factors that are outside of our control. There is no certainty that the forecasts will be accurate. If inflation is lower than forecast, then additional funding may be required to maintain the existing levels of service. For example, if inflation in 2019/20 was 1% higher than forecast, this would require around an additional $320,000 in funding.

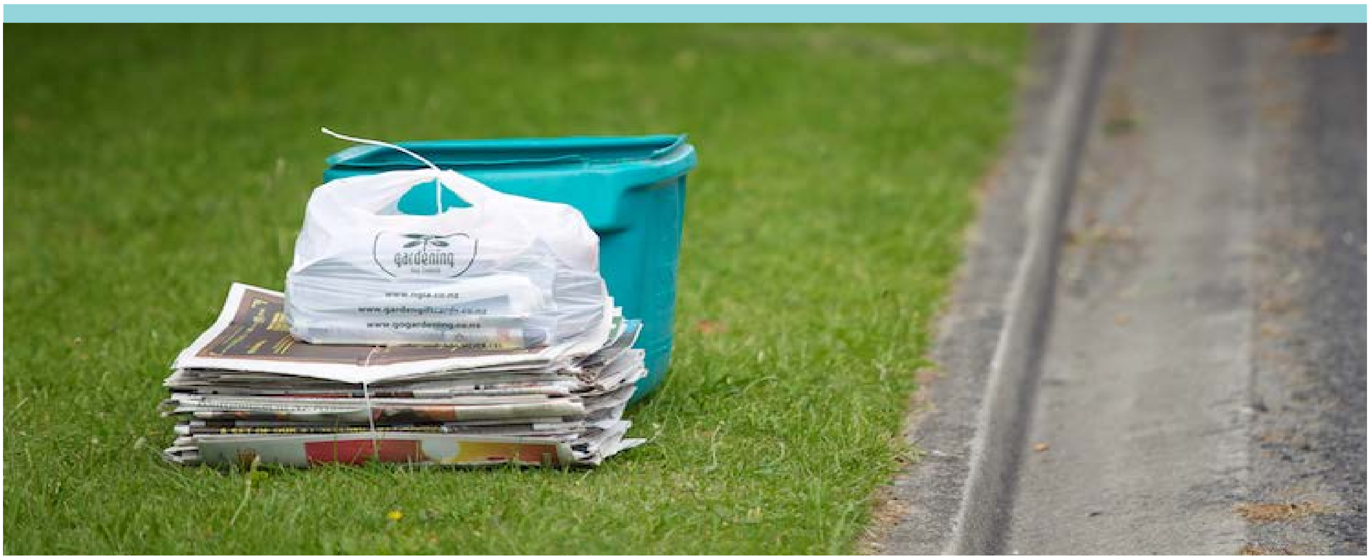
2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/48
0.0%	2.12%	2.17%	2.21%	2.35%	2.29%	2.41%	2.53%	2.55%	2.64%	2.40%

Forecasting assumption	Infrastructure Strategy: Growth and demand	Infrastructure Strategy: Lifecycle of assets	Infrastructure Strategy: Levels of service	Risk	Level of uncertainty	Reasons for and financial effect of uncertainty
Return on investments						
The interest rate projections for cash investments shown below are driven by the 90 day bank bill rates as implied by the 10 year swap rate, with an added margin of 50 basis points. We have not budgeted to receive returns on investments held for strategic purposes over the next 10 years of this plan (as set out in the Financial Strategy). Interest earned on internally borrowed funds will be used to subsidise rates. Forecast internal interest rates shown below, are calculated at the midway point between Council's average external borrowing and average external investments.				Interest rates are lower than expected. The internal rate of interest could be much lower than forecast.	Low	There is no certainty that the forecasted interest rates will be accurate. If the forecasted interest rate proved to be significantly overstated, then additional funding may be required to maintain are existing levels of service. A decrease in the investment interest rate of 1% would decrease interest income by $105,000 and increase rates required by 0.33% in year one of the Long Term Plan. A reduction in internal interest would result in a shift between general and targeted rate requirements, but overall, would have no significant impact.

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Investment interest rates	2.54%	2.89%	3.32%	3.68%	3.96%	4.18%	4.35%	4.47%	4.54%	4.60%
Internal interest rates	3.29%	3.42%	3.67%	3.96%	4.19%	4.36%	4.49%	4.60%	4.68%	4.73%

Forecasting assumption	Growth and demand	Lifecycle of assets	Levels of service	Risk	Level of uncertainty	Reasons for and financial effect of uncertainty
Rating valuations						
All properties in the district will be revalued in 2018 with new values taking effect from 1 July 2019 and every three years after that.	✓			It is possible that this process will change the incidence of rates (e.g. rural values may increase by a greater proportion than urban values).	Medium	No allowance has been made for the possible impact of changes in rating valuations in this plan. We have the opportunity to review this annually as part of the Annual Plan.
Funding of future replacement of significant assets						
We have assumed that depreciation will fund the renewal of significant assets and loans will fund any shortfall if depreciation reserves have been exhausted.		✓		Funding will not be available to replace assets.	Low	If loan funding for renewals is required above the level budgeted, this would also increase interest costs above what has been budgeted for. Each additional $1 million borrowed would increase interest costs by $5,350 per annum and increase rates by 0.02% in year one, and increase interest costs by $34,950per annum and increase rates by 0.11% in year two of the Long Term Plan.

Forecasting assumption	Infrastructure Strategy: Growth and demand	Infrastructure Strategy: Lifecycle of assets	Infrastructure Strategy: Levels of service	Risk	Level of uncertainty	Reasons for and financial effect of uncertainty
Subsidies - New Zealand Transport Agency (NZTA)						
We receive annual subsidies from NZTA. We have assumed that the rate of subsidy of 51% will remain constant over the life of the Long Term Plan. We have assumed that operating and capital expenditure programs that have in the past received NZTA subsidies and/or satisfy the criteria that NZTA require in order to provide subsidies will continue to receive a subsidy funding over the life of the Long Term Plan.		✓	✓	The rate of subsidy received could be higher or lower than expected. NZTA could make changes to the subsidy rate, the funding cap or the criteria for inclusion in the subsidised works programme.	Medium	If subsidies from NZTA are higher than we've assumed, we could complete our work programmes at a lower cost to ratepayers. Alternatively, if funding from NZTA reduced, we would need ratepayers to fund a greater share, or to review our projects or level of service. If our work programmes are not approved by NZTA, then we will need to review our budgets. Work that would otherwise receive subsidy may be deferred, or the approved three year programme may be adjusted as part of future Annual Plans. A reduction in the level of subsidy by 1% per annum would increase General Rates requirement by $59,000 and the percentage of General Rates needed by 0.19% on average over the 10 years of the plan and/or would affect the level of service we provide.
Waste minimisation levy						
Over the course of the Long Term Plan we will continue to receive levy contributions from Central Government (under the relevant provisions of the Waste Minimisation Act 2008). We will apply these funds to projects and provision of recycling services that meet the criteria set out in that Act.	✓			We may not receive the predicted levels of waste levy income.	Low	We use the levy income to fund waste minimisation schemes, educational programmes and waste minimisation projects. If we do not receive the amount of income predicted, expenditure in these areas may need to be reduced.



Forecasting assumption	Infrastructure Strategy: Growth and demand	Infrastructure Strategy: Lifecycle of assets	Infrastructure Strategy: Levels of service	Risk	Level of uncertainty	Reasons for and financial effect of uncertainty
Major industries						
There are a number of major industrial entities operating in the Matamata-Piako District that contribute significantly to our revenue streams including metered water and trade waste income, as well as income related to development. We have assumed (unless stated otherwise), that these major industrial entities will continue to operate and require the same services over the 10 years of the plan.	✓			One or more of the major industrial entities could leave the district, or build their own infrastructure, reducing their reliance on Council, and reducing the revenue stream.	Medium	A significant drop in tradewaste or metered water revenue would require either additional funding to be obtained through rates, or a reduction in the level of service provided.
Revenue from development contributions						
Using the growth data in recent years as a basis, we have assumed that over the next 10 years growth will occur at a slightly higher rate in the earlier years, and at a lower rate of growth in the later years of the Long Term Plan.	✓			Growth could be higher or lower than projected due to an increase in births, a decrease in deaths or a change in migration or other influences. Growth may also not occur in the areas where we have provided for development.	Medium	The growth component of new capital projects is funded from development contributions. If growth does not occur as predicted, revenue from development contributions will drop and we may have to borrow additional funds or reconsider the projects.
Doing more						
Council is planning to 'do more' in this LTP. Council will be able to access sufficient resources (i.e. contractors/staff) to undertake the projects planned within the timeframes set in the LTP.			✓	Projects are not completed within the time proposed in the LTP and the community will not receive the benefits of our projects we have planned.	Medium	Projects are not completed on time which may create a financial surplus for Council if projects that have been rated to be completed in a particular financial year are not undertaken. A build-up of projects may occur limiting the ability of future work to be completed.

<table>
<tr><th rowspan="2">Forecasting assumption</th><th colspan="3">Infrastructure Strategy</th><th rowspan="2">Risk</th><th rowspan="2">Level of uncertainty</th><th rowspan="2">Reasons for and financial effect of uncertainty</th></tr>
<tr><th>Growth and demand</th><th>Lifecycle of assets</th><th>Levels of service</th></tr>
<tr><td colspan="7">Growth</td></tr>
<tr><td>Population
The resident population of the district is projected to experience a medium rate of growth from 34,980 in 2018 to 36,540 by 2028 and 36,950 by 2048 which is an annual average growth rate of 0.4% and 0.2% respectfully. Factors such as the ageing population contribute to a projected decline in the average household size.

Dwellings
The number of dwellings is projected to increase from 14,312 in 2018 to 15,327 by 2028 and to 16,489in 2045. This is a 0.6% average growth rate from 2018 to 2028 and 0.5% average growth rate to 2048.

Rating units
The number of rating units is projected to increase from 14,961 in 2018 to 16,039 by 2028 and to 16,719 in 2048. This is an annual average growth rate of 0.7% from 2018 to 2028 and 0.5% to 2048.

Further details on the district population, dwellings and rating units are in Section 5 of this plan. In preparing our draft budgets however, we have applied a more conservative annual growth in rating units of 65 new rating units per annum. This is more in keeping with the rate of growth we have experienced over the last seven years and accommodates the level of requests we receive for contiguous property status.

Land use
The Long Term Plan has been prepared on the basis that the majority of growth in the district will be centered in the three urban areas, Matamata, Morrinsville and Te Aroha while the populations of the district’s rural areas are projected to remain constant or to decline. Council has adopted town strategies that guide the planning and future development of the three main towns in the district, and adopted Plan Change 47 in 2017, reviewing the areas provided for development in our three main towns.

Land use change projections from 2013 – 2063 are described in more detail in the Financial Strategy.</td><td>✓</td><td></td><td></td><td>Growth could be higher or lower than projected due to an increase in births, a decrease in deaths a change in migration or other influences.

Growth may also not occur in the areas where we have provided for development.</td><td>Low-medium</td><td>Growth, population and household projections are based on the district’s actual growth over the last 10 years, as well as assumptions about the rate of births, deaths and migration in the district. We have adopted a ‘medium’ growth scenario for the district as being the most appropriate for our long term planning. This is consistent with recommendations from Statistics New Zealand.

The growth in rating units also has a direct impact on rates – if it is higher than projected, rates will be lower because we can spread our costs across more ratepayers. However, if it is lower than projected, the opposite occurs and rates would increase, because there would be less ratepayers to share the rating burden.

The growth component of new capital projects is funded from development contributions. If growth doesn’t occur at the rate predicted, revenue from development contributions will drop compared to budget and we may have to increase rates, borrow additional funds or reconsider the projects. The total value of growth projects in the plan is $12.7 million.</td></tr>
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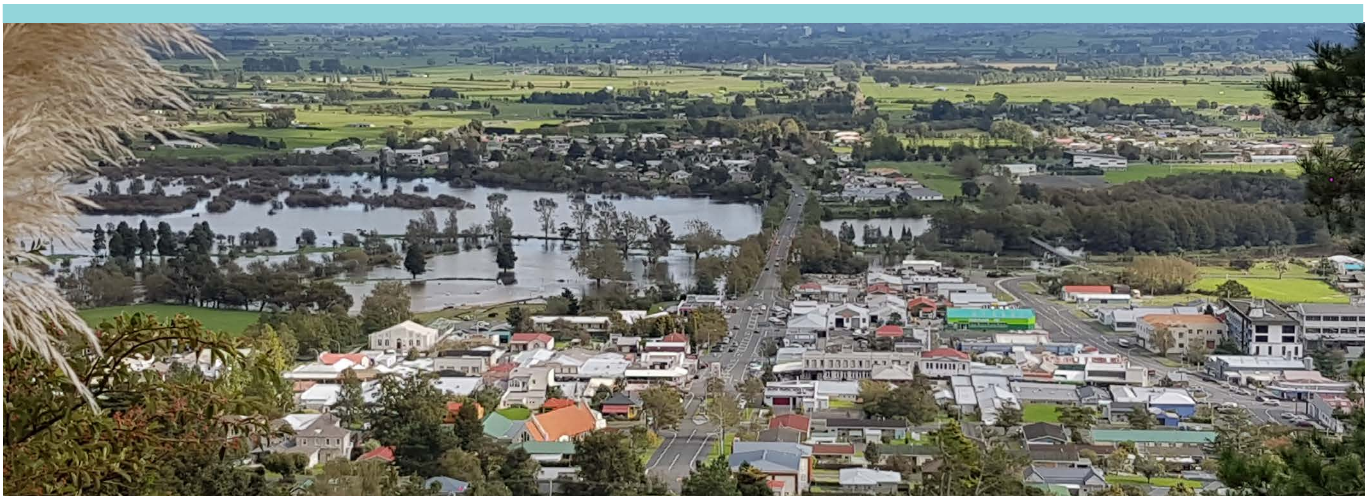
Forecasting assumption	Infrastructure Strategy: Growth and demand	Infrastructure Strategy: Lifecycle of assets	Infrastructure Strategy: Levels of service	Risk	Level of uncertainty	Reasons for and financial effect of uncertainty
Local Government structure						
Central Government has changed how local government can be reorganised. We have assumed that the structure of local government will remain the same and that no reorganisation process will occur during the life of the Long Term Plan.				Reorganisation could occur, resulting in an amalgamation of councils within the Waikato Region.	Low	Reorganisation processes can be triggered by the community under the Local Government Act 2002. If this occurred we would need to respond to any proposal with a decision being made by the Local Government Commission.
Collaborative partnerships						
Partly in response to Central Government's direction, we have budgeted in this Long Term Plan to work towards greater regional collaboration. However in preparing the Long Term Plan we have not assumed any cost savings (other than those from existing partnerships) in our budgets.	✓			Future legislative changes could require greater collaboration than we are planning for. Reviews of services may not result in collaboration, efficiencies or a reduction in costs.	Low	An example of a partnership that has been established is the joint provision of rubbish and recycling services with the Hauraki and Thames-Coromandel District Councils, which has resulted in cost savings for the community. While we will continue to look for efficiencies and cost saving in the provision of our services the financial effects of this work are unknown. We have the ability to review budgets with the Annual Plan.
Legislation						
Changes to legislation have a direct impact on the way we conduct our business. The speed and scale of review of legislation depends largely on the policy direction and priorities of the government of the day. We expect there to be changes to legislation during the life of the Long Term Plan, but we have assumed that these will not have a significant effect on our business.				Central Government will reform legislation and this may have a significant effect on the activities we undertake and the cost of providing them.	Low	Most changes to legislation are known about in advance, giving councils the ability to prepare for implementation. Historical trends have been for services transferred from Central Government to local government or additional regulations being put in place. The cost and impact of future legislative changes on our activities is dependent on the specific services affected by the legislative change. Financial uncertainty in this area would generally impact the cost of introducing changes, and the mechanisms

Forecasting assumption	Infrastructure Strategy: Growth and demand	Infrastructure Strategy: Lifecycle of assets	Infrastructure Strategy: Levels of service	Risk	Level of uncertainty	Reasons for and financial effect of uncertainty
Treaty of Waitangi Settlements						
We have assumed that there will be no significant additional costs to us arising from Treaty of Waitangi settlements, including co-management agreements.	✓			The impact of Treaty of Waitangi settlements may be greater than expected	Low	The government is in the process of completing settlement negotiations with Iwi in and around our district. The outcomes of the settlement processes will result in co-governance arrangements. We will need to partner with Iwi and other councils in the Waikato Region in the formation and operation of co-governance entities. Co-management processes may add significant costs, but we have not been able to quantify what those costs (if any) will be.
Assets – Useful life and asset information						
The useful lives of assets are assessed in accordance with the depreciation rates as set out in our accounting policies. It is assumed that assets will be replaced at the end of their useful life on a 'like for like' basis (i.e. location, size) using the most appropriate materials available at the time the asset is renewed/replaced. There are a number of assumptions and estimates used when performing depreciated replacement cost valuations over infrastructural assets. Valuations of significant assets classes will be performed on a one to three yearly basis. Valuations will also be undertaken if we are concerned that values may have shifted significantly over any given period of time. Planned asset acquisitions (as per the capital expenditure programme) will be depreciated on the same basis as existing assets. Details about data confidence and asset lives for the various asset groups are included in the relevant asset section of the Infrastructure Strategy.		✓		The physical deterioration and condition assessment used in the valuation of an asset could be at an amount that does not reflect its actual condition. This is a particular risk for those assets that are not visible, such as underground stormwater, wastewater, and water supply pipes.	Low	There is no certainty that asset components will last for their design lives (expected lifespan). These have been identified through the National Asset Management Support Standards and experience to date indicates no significant errors. Asset replacement is budgeted at the expected end of their useful life and earlier replacement will result in a loss on disposal of any residual value. Earlier replacement could mean deferring other capital projects to remain within our self-imposed debt limits. This risk is minimised by performing a combination of physical inspections and condition modelling assessments of underground assets; estimating any deterioration or surplus capacity of an asset.



Forecasting assumption	Infrastructure Strategy: Growth and demand	Infrastructure Strategy: Lifecycle of assets	Infrastructure Strategy: Levels of service	Risk	Level of uncertainty	Reasons for and financial effect of uncertainty
Sales or transfer of assets						
It is assumed throughout this plan that we will retain ownership of our significant assets and continue with the current Council Controlled Organisations.		✓		That the financial or non financial objectives of holding strategic assets or Council Controlled Organisations are not achieved. The risk of loss is low.	Medium	Should specified returns not be attainable, we would review our investment. Such a review may have a financial impact. Any decision to sell or partially sell would be significant and a full proposal with options to be considered would be provided to the community for feedback as part of a consultation process.
Service Delivery						
The governance and service delivery arrangements for our activities and services will remain.	✓		✓	Governance and service delivery arrangements may change significantly from the current structure. For example, the formation of a Council Controlled Organisation for the management of some of our services.	Low	Service Delivery reviews will be completed in accordance with legislation. Any recommendation to change how we deliver any service will be considered at the time, and may require community consultation. Any change to service delivery method or governance arrangements may result in service interruption and/or unbudgeted costs of transitioning.
Levels of service						
We have assumed that demand for our services and community expectations regarding the level of service we provide will not change significantly from what we have budgeted for. In developing this Long Term Plan we have also assumed that the current levels of service we provide will continue unless specifically stated otherwise. For some of our assets recent changes to legislation and the regulatory framework require us to change our levels of service. This is particularly true for the water supply services, where increasing environmental and health standards require improved water quality and improved security of water sources. Similar changes can be seen for wastewater and stormwater where increasing environmental standards require improved treatment of wastewater and stormwater before it can be disposed into the environment. The Roading activity is also seeing changes to the levels of service, with the implementation of One Network Road Classification system. This is likely to see the levels of service for some roads improve and others decrease.			✓	External factors or budgetary constraints may adversely affect our ability to deliver intended levels of service. There are significant changes in customer expectations regarding demand for services or levels of service.	Low	A number of factors may impact our ability to deliver our intended levels of service, such as financial constraints or a natural disaster. Expectations of the community may also change over time. Changes to levels of service may affect the scale and type of infrastructure and services we provide. If significant changes occur we will need to reassess the effect on capital expenditure projects and determine the materiality of change to the Long Term Plan. The financial effect of uncertainty for this assumption cannot be quantified. Any significant changes to levels of service would require a proposal with options to be considered for feedback as part of a consultation process.

Forecasting assumption	Infrastructure Strategy: Growth and demand	Infrastructure Strategy: Lifecycle of assets	Infrastructure Strategy: Levels of service	Risk	Level of uncertainty	Reasons for and financial effect of uncertainty
Climate change and natural hazards						
We have assumed that there will be no significant impact from climate change, no significant natural disaster and that our funding of civil defence will continue. The Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report was completed in 2014. This states that warming of the climate system is unequivocal, and since the 1950s, many of the observed changes are unprecedented. Central Government recognises climate change as a long term strategic issue for New Zealand. In the Strategy we have taken the effects of climate change into account for certain activities that it would affect the most (such as stormwater, water and wastewater). Climate change could also pose challenges for the district in relation to land use and the economy in the future (such as crop production). We recognise New Zealand's vulnerability to natural disasters. If our communities are not adequately prepared we may not be able to recover from a natural disaster.	✓			The risk is low in the short term and there is a medium risk for the term of this strategy. Projected climate change and hazard scenarios (such as storm events) could occur more or less regularly than what has been projected. A lack of preparedness and resilience in the event of a natural disaster would compromise our ability to provide services to the community. Significant natural disasters could compromise our community's ability to pay for services. Significant natural disasters could further increase insurance costs beyond the level budgeted.	Medium	Climate change and hazards could have adverse impacts on public and private property, and our infrastructure such as the roading and stormwater networks. Overestimating the effects of climate change or hazards could result in unnecessary work, but underestimating the effects could impact on emergency project works. Either scenario would affect ratepayers as infrastructure and hazard planning cost money. A significant natural disaster could disrupt our economy and day to day activity, reducing the ability of our community to pay for services and significantly increase insurance costs – as has been seen with the Canterbury earthquakes. The financial effects of these risks depend on the occurrence and scale of future natural disasters, so the timing and financial impact on the forecasts in the Strategy cannot be quantified.
Resource consents and environmental standards						
We hold several resource consents for the activities that we undertake - mainly for taking water for our town water supplies, and discharging stormwater and treated wastewater from our networks. These consents are obtained from the Waikato Regional Council and are influenced by national policy – such as National Environmental Standards and National Policy Statements under the Resource Management Act 1991 framework. We have assumed that the conditions of resource consents for our activities will not be altered significantly during the life of the Long Term Plan.	✓			Conditions of resource consent could be altered significantly and without allowing sufficient time for planning. Changing Environmental standards could increase costs and put pressure on the affordability of the services we provide. Community expectations of the Environmental performance of Council services could increase.	Medium	Resource consents are normally granted for long periods and are anticipated well in advance. We have included renewing resource consents in our budgets, including funding for potential additional requirements of consent conditions. The final costs of obtaining consents are difficult to predict (given the availability of appeals under the Resource Management Act 1991). The impacts of changes to environmental standards may be significant in the longer term, however financial effects are difficult to predict.