



TE KAUNIHERA O TE AWA KAIRANGI | HUTT CITY COUNCIL

Meeting to be held in the Council Chambers,
2nd Floor, 30 Laings Road, Lower Hutt on
Thursday 27 June 2024 commencing at 4.00pm.

SUPPLEMENTARY ORDER PAPER

PUBLIC BUSINESS

5. ADOPTION OF THE LONG TERM PLAN 2024-2034

Appendices

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Kate Glanville
SENIOR DEMOCRACY ADVISOR

Purpose of Memorandum

Subject:	DRAFT LONG TERM PLAN 2024-2034 - summary of changes to the Long Term Plan 2024-34
Date	21 June 2024
From:	Jenny Livschitz - Hutt City Council Group Chief Financial Officer
To:	Long Term Plan/ Annual Plan subcommittee

1. To provide the Long Term Plan/ Annual Plan subcommittee with a summary of changes to the Long Term Plan 2024-34 as a result of the audit process and related feedback. This memorandum is appendix 1 to the report, "Adoption of the Long term plan 2024-34" which contains the decisions being sought.

Background

2. The Long term Plan 2024-34 (LTP) has been updated for Council decisions on 4 June 2024 and related impacts on interest costs, rates revenue, depreciation etc. In addition, Audit NZ have carried out an audit of the LTP. This process has identified some additional disclosures and minor changes which are described below.

Audit opinion

3. As part of the preparation of the Annual Report 2023-24, an independent asset revaluation process is underway. The audit opinion for the LTP is qualified due to a limitation of scope on the value of three waters assets as follows:
"As outlined on page [...], the Council is in the process of obtaining an independent valuation of its three waters assets in preparation for its 2024 financial statements. There are indications that the increase in the value of these assets could be significantly higher than the assumptions applied in the Council's prospective financial statements. However, the valuer's work is not finalised.

Because the revaluation will only be completed after the date of the audit report, our work on the value of these assets was limited. There were no satisfactory audit procedures that we could adopt to determine the reasonableness of the value of these assets. We were therefore unable to determine whether the value required any adjustments and what flow on effects this could have on future depreciation costs and rates."

4. More information on this valuation work and disclosure made in the significant forecasting assumptions is discussed in paragraphs 6 -9 below.
5. The audit opinion also retains the two emphases of matters as follows. These are similar to what was included in the audit opinion for the draft LTP Consultation Document.
 - a) Uncertainty over the delivery of capital programme, given the significant increase in the programme. This references that Council has put in place a number of initiatives, there is an inherent level of uncertainty and risk that the Council may not be able to deliver on the programme, especially when it has increased substantially.
 - b) Uncertainty over the three waters renewals forecast. This references that forecasting for three waters assets is primarily based on age and investment is capped by what the Council considers is affordable. It comments that using mostly age-based information creates uncertainty over which assets to prioritise for renewal, the timing thereof, and the forecast amounts required, resulting in a risk of asset failure and reduced levels of service. It also

references that to reduce the risk, the Council has committed funding to repair the backlog of leaky pipes and is working to better understand the condition of its underground assets. This emphasis of matter is very similar to audit opinion on the draft LTP Consultation Document but is extended to reference the cap of funding due to affordability constraints.

Summary of changes

Valuation of assets:

6. Accounting standards and legislation requires Council to regularly revalue its significant assets to a fair value. This is done at least once every three years, unless there are indicators that fair values have moved significantly during the interim periods. The most recent valuations have been completed bi-annually being 31 May 2020 and 31 May 2022.

The last valuation was undertaken in May 2022 by Aon Valuation Services for Annual report 2021-22.

7. For the current valuation, WSP Global Inc.(WSP) was appointed to revalue the Three water assets, with the remaining assets sitting with Aon. Significant value increases have been identified in the draft report across the three water network. These increases are due to:
- Increases in quantity of assets (additions, renewals and vesting);
 - Increases in unit rates (material costs based on contract pricing and indexing);
 - Increase in on-costs (other materials, installation and fittings); and
 - Improved asset information gathered and used since the last valuation, including (and not limited to) pipe size, condition and depth assessments.
8. It should be noted, as at the date of this report, further work is being undertaken by Council officers, Wellington Water Limited (WWL) staff and WSP to validate the numbers as there are a number of unresolved queries. For this reason, we have not adjusted the LTP due to the uncertainty as to what the updated numbers will be.
9. As a result of this, the revaluation assumption under significant forecasting assumptions in the LTP has been revised as follows, with changed text highlighted in green (refer page 132 of LTP).

Asset revaluation				
Assumption	Risk	Level of uncertainty	Reason for uncertainty	Financial impact of the uncertainty
<p>It is Council's policy to assess the carrying value of its revalued assets annually to ensure they do not differ materially from the assets' fair value. Revaluations are carried out every three years. For further information see council's accounting policies.</p> <p>Council engaged two valuers to independently value various significant classes of Council assets in accordance with its accounting policies to support the preparation of the Annual report 30 June 2024. The valuers are only expected to finalise their work after the adoption of these prospective financial statements. There are indications that the value of three waters assets and future depreciation costs could increase significantly.</p>	<p>Asset revaluations differ from those budgeted; depreciation charges resulting may differ.</p>	<p>High</p>	<p>Market buoyancy and property pricing influences the value of the property assets. Contract and construction prices influence the value of infrastructure assets.</p>	<p>A higher level of asset valuation means more depreciation to use to fund asset renewals and some improvements, however this is limited by the actual level of depreciation funded through rates.</p> <p>Lower levels of valuation and depreciation reduce Council's ability to fund capital from depreciation and place more reliance on funding improvements from other funding mechanisms, such as debt or rates. Depreciation rates are contained in accounting policies.</p>

<p>Once the valuers' work is completed, we will undertake an extensive exercise to understand the information presented, the reasons for any significant increase in value and whether the results are reasonable.</p> <p>Following this exercise, it is expected that the report will be finalised and appropriately reflected in the Annual report for year ended 30 June 2024, due for publication in October 2024. At this time Council will consider the impacts and incorporate any changes required in the Annual Plan 2025-26 preparation. The prospective Financial Statements include estimated revaluations at a rate of 7.5% based on indicative information received from our valuers as at March 2024. This assumption is unchanged from the Draft Long Term Plan 2024-34 consulted on.</p>				
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Other changes:

10. Borrowing, interest and dividend projections have been updated for Seaview Marina Ltd and Urban Plus Limited to reflect their final Statement of Intent (SOIs) getting adopted in the separate reports in this agenda.
11. There have been some minor editorial changes to the wording in the Financial and Infrastructure Strategies, particularly around impacts of the Capital programme in years 11-30. There have also been updates to all relevant graphs and numbers to reflect Council decisions as at 4 June 2024.
12. Rates and funding impact statements have been updated to reflect Council decisions as at 4 June 2024.



Whāia te pae tawhiti

Taking the next steps

Mahere Tekau Tau 2024–2034
Our 10 Year Plan 2024–2034





