

2021-31

Significant Forecasting Assumptions

Waitomo District Council

DRAFT



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SECTION | INTRODUCTION

In order to plan for the 10 Year Plan (10YP), it is imperative to make assumptions about various aspects in the future. The significant assumptions made about the future form an important part of the planning framework.

It is also important to assess the estimated levels of uncertainty represented by the factors identified in the assumptions, so that the risk mitigation and planning can be appropriately carried out. The impact of the assessed levels of uncertainty on the integrity of this plan has also been undertaken. Schedule 10 of the Local Government Act 2002 requires that, for high levels of uncertainty, Council is required to state the fact of the uncertainty and give an estimate of the potential effects of that uncertainty on the financial estimates provided in the 2021-31 10YP Consultation Document supporting information.

The significant forecasting assumptions are summarised in the table below and are discussed more fully in the pages that follow.

SECTION | SUMMARY OF ASSUMPTIONS

Assumption		Level of Uncertainty	Impact on Integrity of 10YP
Global Impact			
1	The impacts of climate change will be minimal over this 10YP planning period.	Low - Medium	Low
2	That the impact of technological change or disruption will not adversely affect Councils ability to deliver services.	Medium	Low
3	(a) Council will be able to deliver its core services at the levels or at a reduced level (depending on the alert level) during a global crisis or pandemic, with sufficient systems and procedures in place to ensure business continuity. (b) Council will be able to adequately resource and support any Emergency Management response in the event of a global crisis or pandemic.	Medium -High	Low- Medium
National Impact			
4	Actual rates of inflation will be consistent with the projected inflation adjustors.	Low	Low
5	Waka Kotahi Financial Assistance Rates will continue to be received at 75% on qualifying road and footpath expenditure	Low	Medium
6	Council is able to access external borrowing at levels forecast in the 10YP	Low	Low
7	The annual interest rate on borrowings will be 2.75% for years 2021/2022 to 2023/2024 and 3.58% for years 2024 to 2031.	Medium	Low
8	Impact of Central Government changes to policy or legislation on local government income or expenditure.	Medium-High	Medium
Waitomo District Impact			
9	The impact of population and societal change has been adequately provided for in the financial estimates.	Low	Low
10	The annual financial return on investments is assessed at zero.	Medium	Low
11	Resource consent acquisition and compliance processes are within estimated timeframes and expenditure estimates. <ul style="list-style-type: none"> • 3 Waters • Landfill and Other Activities 	Medium Low	Medium Low
12	There is no change in the rating base over the 10YP.	Low	Low
13	The two major users of water and trade waste services will continue to operate within the district	Low	Low
14	There is no transfer of ownership of significant assets	High	High
15	Asset revaluation amounts are based on the assumed rates of inflation.	Low	Low
16	Assets will deliver the required level of service over their document useful life.	Low	Low
17	Subsidies and depreciation reserves will generally be adequate to fund asset renewal expenditure.	Low	Low
18	No material growth related capital expenditure is expected.	Low	Low
19	Availability of contractors to complete capital programme	Medium	High

SECTION | GLOBAL IMPACT

CLIMATE CHANGE

Projected climatic changes present significant implications for Waitomo district's environment, economy and the safety of our communities. Over the next century the Waikato region can expect:

- rising sea levels,
- more extreme weather,
- more droughts in the east,
- more intense rainfall and increased wind in the west,
- warmer, drier summers, milder winters and shifting seasons.

It is also expected that there will be increased risks to communities from natural hazards such as river and coastal flooding, coastal erosion and severe weather.

Through the 10 Year Plan (10YP) and asset management planning process, Waitomo District Council has made provisions through its activity and asset planning to consider the consequences arising from climate change, including the consequence of new capital work occurring in areas with the potential to be impacted by climate change. The Infrastructure Strategy explicitly considers the resilience of infrastructure in the event of natural disasters, identifies and provides for the management of risks relating to such disasters, and makes appropriate financial provision for those risks.

As part of the review of the Waitomo District Plan, Council is evaluating the potential risk of climate change on coastal areas and in respect of flood events. The purpose of this work is to help build intergenerational resilience to Climate Change within the District. Initial assessment indicates that an adaptive management strategy is required for coastal townships. Climate change scenarios have been used to model coastal erosion and coastal inundation, and flooding in Te Kuiti and Piopio. The Proposed District Plan provisions will be drafted to guide and manage the response which will further inform the planning and management phases.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
1. The impacts of climate change will be minimal over this 10YP planning period.	Low - Medium	Low

TECHNOLOGICAL CHANGE

Technology is progressing quickly, at a rate that is, worldwide, overwhelming society's ability to adapt. Whereas technology in the past replaced muscle, today technology is replacing cognition, which may affect how the workforce of the future is structured through a shift in the demand of skills. Adaption of new technology by the council and our communities will require support to remove barriers to desirable change.

Use of new technology will be necessary to help provide communities with data, and a way to engage with council. Through technology, subject to cost, communities will be able to be increasingly involved in the council's work in different ways and be empowered to take action. It is important to note, it is the nature of technology that some of the downstream effects of innovation can be unexpected, and this uncertainty is where the potential for risk lies.

Disruption is, by definition, uncertain. The nature or timing of any disruption is unexpected and is outside the control of the council. However, council can manage this uncertainty by fostering a working environment which allows for agility in decision making and change at both a governance and operational level. For the purposes of these 2021-31 Ten Year Plan planning assumptions, this represents a low risk for Waitomo District Council.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
2. That the impact of technological change or disruption will not adversely affect Councils ability to deliver services.	Medium	Low

GLOBAL PANDEMIC

The full impact of the COVID-19 pandemic in New Zealand and specifically in the Waitomo District is as yet unknown. Even if the COVID-19 pandemic does not end up having a significant impact on the council's activities and levels of service, it is unknown when another pandemic or other crisis might occur. This is evident by the resurgence of community transmission in August 2020.

Council has systems and procedures in place for many staff to be able to work remotely if needed, however some of the council's activities simply cannot be performed remotely. Council may also be required to stop or reduce many of its business-as-usual activities to focus resources on a Emergency Management response.

Further widespread self-isolation, quarantine or new lockdowns would have an impact on customer-facing, direct contact activities. There would also likely be a significant impact on some ratepayers' ability to pay their rates, therefore affecting Council's income.

Council's investments would be negatively affected by national and global economic downturn due to pandemic responses.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
3. (a) Council will be able to deliver its core services at the levels or at a reduced level (depending on the alert level) during a global crisis or pandemic, with sufficient systems and procedures in place to ensure business continuity. (b) Council will be able to adequately resource and support any Emergency Management response in the event of a global crisis or pandemic.	Medium -High	Low- Medium

SECTION | NATIONAL IMPACT

FUTURE PRICE CHANGES – RATES OF INFLATION

For the first year of the 10YP (2021/22), all financial statements have been prepared using 2021 dollars. Price level adjustments for inflation, as prepared by Business and Economic Research Limited (BERL) in their report dated September 2020, have been included in all financials statements for the following nine years of the 10YP.

The figures in the table below shows the per annum escalation adjustments applied to particular cost groups from year 2-10 of the 10YP and reflect the mid-scenario of the BERL report.

Planning Year	Category adjustor				Price indices		Overall Local Government Cost Index (LGCI)
	Planning and regulation	Roading	Community activities	Water and Environmental	All salary and wage rates - Local Government	Local Government administration	
Group of Activities	Regulation Resource management	Roads	Recreation and Property Community and Partnerships	Water, Wastewater, Stormwater Solid Waste		Leadership	
2022/23	2.5	3.1	2.7	3.5	2.4	2.0	2.9
2023/24	2.3	3.0	2.5	2.6	1.5	2.0	2.5
2024/25	2.2	2.9	2.4	2.7	1.7	1.9	2.5
2025/26	2.2	2.9	2.5	2.9	2.0	1.8	2.6
2026/27	2.2	2.9	2.4	2.8	2.2	1.8	2.5
2027/28	2.2	2.9	2.5	3.2	2.3	1.7	2.6
2028/29	2.2	2.9	2.6	3.3	2.4	1.7	2.7
2029/30	2.2	2.9	2.6	3.4	2.6	1.7	2.7
2030/31	2.2	2.9	2.4	3.1	2.7	1.6	2.6

The inflation assumptions have been applied to capital and operating cost forecasts, as the indices include a combined forecast of operating and capital costs. Because of this combination in the composition of the indices, they may either understate or overstate changes in the prices of operating and capital expenditure.

The above inflation forecasts do not make allowance for spikes in pricing that traditionally occur during re-tendering or renewal processes for medium to long term operating and maintenance contracts. These movements can be as large as 10% in the year immediately following contract re-tendering/renewal, due partly to the inherent increase in levels of service that are introduced to the new contract specifications, either consciously as a change to the scope of works or as a consequence of contract interpretation over previous years.

The risk associated with this assumption is that the rates of inflation may increase at a rate different to that forecast. Rates of inflation greater than those assumed will impact in particular on future cost estimates and the ability of the community to afford the consequential rate increases. This risk may be mitigated by revising budget estimates in conjunction with preparation of each Annual Plan and inflation estimates when the 10YP is reviewed every three years.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
4. Actual rates of inflation will be consistent with the projected inflation adjustors.	Low	Low

NZ TRANSPORT AGENCY FINANCIAL ASSISTANCE RATES

The Financial Assistance Rate (FAR) received by the Council from the New Zealand Transport Agency (Waka Kotahi) for qualifying road and footpaths expenditure has been confirmed at 75% for years 1,2 and 3 of the 10YP. We have assumed operating and capital expenditure programmes which have in the past received Waka Kotahi subsidies will continue to meet the criteria for funding and this funding will continue over the life of the 10YP.

The risk associated with this assumption is that Waka Kotahi may reduce the FAR contribution level to less than the 75% in years 4 to 10 of the 10YP. This may result in a lower level of service or delay in the work programme and may ultimately lead to a deterioration of the districts road and footpath network. A reduction in the FAR contribution level would increase the local share of funding required from ratepayers.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
5. Waka Kotahi Financial Assistance Rates will continue to be received at 75% on qualifying road and footpath expenditure	Low	Medium

EXTERNAL BORROWING

Council joined the Local Government Funding Authority (LGFA) in 2017 as a borrower and guarantor and borrows substantially all its debt funding needs through the LGFA. Council's borrowing options include bank borrowing and obtaining funds from the LGFA.

If Council were not able to borrow any additional funding this would result in either project delays or reduced levels of service. Council considers the risk of not being able to access borrowing is minimal as security is provided through its ability to generate an income from rates. Council has credit facility in place which is renewed annually, and Council is able to borrow through commercial banks and the LGFA.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
6. Council is able to access external borrowing at levels forecast in the 10YP	Low	Low

EXPECTED INTEREST RATES ON BORROWING

Interest rates are expected to remain at historic lows for the foreseeable future. This is primarily due to policy settings to keep interest rates low to cushion the economic impact of the COVID-19 pandemic and low economic outlook prevalent prior to the pandemic. The outlook is for a sustained period of low interest rates due to depressed economies across the world.

Interest costs are projected based on the current tranches of debt and any projected movement in external debt. The relevant interest rates are calculated using the BKBM (Bank Bill Benchmark Rate), the applicable borrowing margin forecast by LGFA and a modest margin. The projected interest rate is applied to each tranche for a period applicable to that tranche, from the interest reset date. The relevant interest rate applied to each tranche is then used to calculate the weighted interest rate for each year of the 10YP.

The risk associated with this assumption is that interest rates may be different to those forecast. Any increases in the interest rates above the interest rate forecast may result in increased operational costs and the rates funding requirement in those years or alternatively a delay in the start date of some projects in order to keep overall costs contained within the annual budgets.

Council's Treasury Policy contains the parameters for external borrowings to limit interest rate risk and provides for the use of interest rate risk management instruments such as interest rate swaps to deliver greater certainty over interest costs. To further mitigate the impact, a margin has been included in the forecast interest rate to ensure that there is sufficient capacity to offset any unexpected increases. Council's commitment to debt reduction sees overall forecast debt to decrease significantly over the 10YP.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
7. The annual interest rate on borrowings will be 2.75% for years 2021/2022 to 2023/2024 and 3.58% for years 2024 to 2031.	Medium	Low

CENTRAL GOVERNMENT CHANGES TO POLICY OR LEGISLATION

The details of future legislative changes are unable to be anticipated with any level of certainty. The information that has been made available through various policy announcements to date suggests that the potential risks to materially impact this 10YP are medium to high in scale, particularly in regard to the government's proposed 3 Waters Reform.

Changes to regulations or rules that affect how we operate (usually through requiring compliance with new and higher standards) cannot be anticipated at this point, especially the unknown details of the 3 waters reform and its impact on Council. As a result, given the lack of detail available on future legislative changes and their timing cost to council, this year's 10YP projects have been planned based on the current legislation, regulations, rules and policy.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
8. Impact of Central Government changes to policy or legislation on local government income or expenditure.	Medium - High	Medium

SECTION | WAITOMO DISTRICT IMPACT

PROJECTED GROWTH AND SOCIETAL CHANGE FACTORS

The census data from 2001, 2013 and 2018 shows that, the district had a higher proportion of children and teenagers than the rest of New Zealand. The proportion of the population in the 50 to 64-year-old categories was also above the national average.

The key points are:

- The age distribution of age groups for the projected population is similar, with only the projected total population differing.
- The trend toward an aging population continues. The proportion of people aged 65+ is forecast to increase from 13% in 2013 to between 25% and 29% by 2048.
- The proportion of the population under 15 years of age is forecast to decline from around 24% in 2013 to between 17% and 23% in 2048.

The result of this changing age structure is that the proportion of people aged between 15 and 64 years of age is forecast to decline from 63% to around 53%. This may have a flow-on effect to the make-up of the work force in the district. Council considers these changes have been adequately catered for in its 2021-31 10YP. Any departure from this assumption can be addressed during the 3-yearly review of the Plan.

In terms of geographic spread of growth, the Te Kuiti Ward is expected to experience a population decline and only small growth in dwellings. The population and number of dwellings is projected to grow in the Waitomo Rural Ward.

Population and dwelling growth flows through to rating units. The district's rating units are predominantly Residential and Residential Lifestyle, with nearly two thirds of the total rating units falling under these two categories. Therefore, any rating unit growth is heavily dependent on dwelling growth. The number of Commercial and Industry rating units is projected to increase in Piopio, and Te Kuiti with no growth elsewhere.

The demographic and development trends show that there is no demand for growth related infrastructure at the present time or in the foreseeable future. For the past few years Council has been working on improving the condition of its core infrastructure assets, particularly in the Water Supply and Sewerage activity areas, in order to support public health outcomes and to meet its resource consent and other legislative requirements.

The growth and development trends support an approach of continuing to upgrade and maintain existing assets as opposed to the development of new capacity driven infrastructure. There is currently enough capacity in the infrastructure network to allow for minimal growth should it occur. Council does not anticipate any significant land-use changes during the period of the 2021-31 10YP.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
9. The impact of population and societal change has been adequately provided for in the financial estimates.	Low	Low

FORECAST RETURN ON INVESTMENTS

The financial annual return on Council’s investment in ICL is assessed at zero for the term of the plan. Any investment income will be utilised prudently to accelerate retirement of term debt.

Due to the uncertainty in determining the future value of the investment, no increase or decrease in the value of the investment has been recognised over the life of the plan.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
10. The annual financial return on investments is assessed at zero.	Medium	Low

RESOURCE CONSENTS

Council has assumed that the resource consents it requires for its infrastructural activities will be obtained and/or renewed within the nominated time frames with conditions that can be met within expenditure estimates.

The expenditure estimates have been prepared based on experience and trends with past consent processes and standards. If the consent conditions are more stringent than expected then the levels of rating, debt, capital and maintenance expenditures will be higher and may require compensating reallocation of other expenditure priorities. Similarly, consent application processes that take longer than estimated could result in additional costs due to the need to extend existing operational arrangements.

The financial impact of consent issues is considered to be minor with time delays required to complete consent processes more likely to be a greater issue than additional costs over what has already been allowed for in the financial estimates.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
11. Resource consent acquisition and compliance processes are within estimated timeframes and expenditure estimates.		
<ul style="list-style-type: none"> 3 Waters 	Medium	Medium
<ul style="list-style-type: none"> Landfill and Other Activities 	Low	Low

RATING BASE

It has been assumed that there will be no material increase or decrease in Council's rating base (number of rateable assessments) over the term of the 2021-31 10YP. This assumption is conservative to minimise the risk of understating average prospective rate increases. Any actual increase in the rating base will help to absorb average rate increases.

	10YP Y1 21/22	10YP Y2 22/23	10YP Y3 23/24	10YP Y4 24/25	10YP Y5 25/26	10YP Y6 26/27	10YP Y7 27/28	10YP Y8 28/29	10YP Y9 29/30	10YP Y10 30/31
Rating Units	5,876	5,876	5,876	5,876	5,876	5,876	5,876	5,876	5,876	5,876

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
12. There is no change in the rating base over the 10YP.	Low	Low

REVENUE FOR WATER AND TRADE WASTE SERVICES

There are two major users of Council services built into the financial forecasts. These are the metered water revenue and trade waste revenue received from the two large meat processing companies within the district. The underlying assumption in Council's financial forecasts is that the companies will continue to operate within the District.

The risk associated with this assumption is that the loss of one or both of these companies would reduce the revenue forecast in the 10YP. There is no information to suggest the likelihood of the companies closing during the life of the 10YP.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
13. The two major users of water and trade waste services will continue to operate within the district	Low	Low

TRANSFER OF OWNERSHIP OF STRATEGIC ASSETS

For the purpose of the 2021-31 10YP period Council has assumed that there will be no transfer of ownership of significant assets. However, Central Government's Three Waters Reform Programme and Council's commitment to Tranche 1 of that programme, has increase the uncertainty in the later years of the 10YP. Council also intends to assess its investment portfolio for optimal use as part of its regular management practice.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
14. There is no transfer of ownership of significant assets	High	High

ASSET REVALUATION

Asset revaluation amounts are based on the assumed rates of inflation within this plan.

Infrastructure and Land and Building assets are revalued by an independent valuer on a 3-yearly basis in accordance with the Accounting Policies. Asset revaluation cycles differ for each class of asset and the projections within this 10YP assume a three yearly staggered revaluation cycle of asset classes.

No provision has been made in the plan for changes in value for investment properties or assets held for sale as there will be no cash flow implications or any impact on the levels of service provided by the Council's groups of activities due to the valuation.

If the value of the asset class increases at a higher rate than the assumed level of inflation this may require an increase in rates funding to ensure we fund the increased depreciation charge or alternatively may impact on the level of services able to be delivered within the forecast funding limits. If the value of the asset class increases at lower rate than the assumed level of inflation this may reduce the rates funding requirement as depreciation costs would be less.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
15. Asset revaluation amounts are based on the assumed rates of inflation.	Low	Low

USEFUL LIVES OF ASSETS

Council has made a number of assumptions about the useful lives of its assets. The detail for each asset category is included in the Statement of Accounting Policies. The useful lives assumed in the 2021-31 10YP are consistent with the NZ Infrastructure Asset Valuation and Depreciation Guidelines prepared by the National Asset Management Steering (NAMS) Group and adjusted for local conditions based on past experience. Experienced independent valuers review and confirm the useful lives for existing assets in the three yearly asset revaluation.

The risk associated with this assumption is that variations may occur between actual and assumed useful asset lives. An incorrect assumption of the useful life will impact on depreciation expense and the relevant asset replacement programme. If the asset useful life assumptions are incorrect, this may lead to asset failure or premature asset replacement. This risk is mitigated by physical inspection of assets, asset replacement programs and ongoing improvement to asset data quality. Council has developed an Infrastructure Strategy detailing the level of investment need to replace, renew or upgrade existing assets over the next 30 years.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
16. Assets will deliver the required level of service over their document useful life.	Low	Low

SOURCES OF FUNDING FOR THE FUTURE REPLACEMENT OF STRATEGIC ASSETS

The funding needed for the future replacement of significant assets is set by Council's Revenue and Financing Policy, that incorporates the balanced budget and intergenerational principles. The funding sources used by Council for the renewal or replacement of assets are subsidies and grants, depreciation reserves and loan funding. The Council has over the term of the 10YP set revenue levels sufficient to fully fund consumption on its assets (unless stated otherwise).

The risk associated with this assumption is that the required actual asset renewal funding varies from the forecast funding required. If asset consumption calculations are insufficient to cover the costs of renewing or replacing the asset, it may lead to reduction in service levels, additional loan funding or a higher rating requirement. This risk may be mitigated through review of work programmes and revising budget estimates in conjunction with each Annual Plan. Council has also built depreciation reserves over time and generally these reserves have positive balances, so should be sufficient to fund renewals at least in the short term. Council has developed an Infrastructure Strategy detailing the level of investment need to replace, renew or upgrade existing assets over the next 30 years.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
17. Subsidies and depreciation reserves will generally be adequate to fund asset renewal expenditure.	Low	Low

DEVELOPMENT/FINANCIAL CONTRIBUTIONS

A Development Contribution Policy (DCP) pursuant to the Local Government Act 2002 is only appropriate where Council proposes to undertake significant new growth-related capital projects. In the absence of growth, the costs of developing and implementing a DCP significantly outweighs the benefits.

The growth projections indicate that there is likely to be a small amount of growth in dwellings and in rating units, despite a decrease in population. This is, however, over the 30-year projection, less than 0.5% increase/decrease across these measures, therefore general stability can be anticipated, and the impact of growth is assumed to be low.

The Resource Management Amendment Act 2020 re-enacted the ability for Councils to collect financial contributions from 1 July 2020, therefore financial contributions will be incorporated into the Proposed District Plan.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
18. No material growth related capital expenditure is expected.	Low	Low

AVAILABILITY OF CONTRACTORS TO COMPLETE CAPITAL PROGRAMME

It is assumed there is sufficient capacity within the professional services and physical works contractor market to undertake the capital programme.

There is a low/medium degree of uncertainty around this assumption as there are high levels of forecasted capital expenditure from other central and local government agencies in the North Island as well as strong ongoing demand for new housing and development nationally. The impact of this on supply and demand on the contracting sector may impact on price competitiveness. Against that, the civil construction sector is seeing spill-over of out of district contractors seeking to establish local market foothold. Procurement processes are well subscribed at the proposal stage, with the impact of Government funded "shovel ready" projects relatively short-term and minor compared with longer term, core services delivery.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
19. Availability of contractors to complete capital programme	Medium	High