Significant forecasting assumptions and minimising risk

In planning for the future we must make assumptions. These carry a level of risk, as they may not hold true. The impacts of these can largely be mitigated through review, with any changes included in annual and 10-Year Plans.

The assumptions use for planning projects for 2018 to 2028 are outlined below:

1. Lifecycle of significant assets

We assume:

The useful lives of assets are revised as part of the cyclical revaluation process for each asset class where infrastructure assets are revalued two yearly and buildings every three years. Further detail on asset useful lives is tabulated under the accounting policies section of this plan.

Our level of uncertainty:

Medium for underground water supply, wastewater and storm water infrastructure assets due to accuracy of condition assessments. Low for all other assets.

The risk:

Actual asset lives are shorter than indicated and maintenance or earlier renewal work is required or a service failure occurs. Also, insufficient depreciation would have been funded to “replace” the asset.

So we will:

Continue programme of asset condition assessments and update affected activity management plans. Asset records and renewal forecasting will be updated to reflect any changes to useful lives.

2. Revaluation of non-current assets

We assume:

Our land and buildings will be revalued every three years, our roads and three waters will be on alternate years, and investment properties will be revalued annually and the valuations will be consistent with the Business and Economic Research Limited inflated values outlined in our Inflation assumption.

Our level of uncertainty:

Medium for underground water supply, wastewater and storm water infrastructural assets due to having asset condition assessments. Low for all other assets.

The risk:

If actual valuations are different to that predicted we will need to reflect this in our Statement of Comprehensive Revenue and Expense.

So we will:

Monitor value projections against actuals. The cost of replacing or constructing assets will vary each year from the estimates according to market forces. Significant differences will be reflected in budget forecasts and annual plans.

3. Significant emergency events

We assume:

No significant emergency events (natural disasters) affecting our district will occur during the period of this plan, that cannot be funded out of the budgetary provisions or met by insurance arrangements. That 60% of the costs associated with damage to Councils underground infrastructure assets from a significant emergency event, will be provided by the Government for the portion of the cost of damage in excess of $10 million.

Our level of uncertainty:

High due to the unpredictable nature of such events. Due to the high degree of uncertainty associated with the occurrence of a significant emergency event it is not possible to quantify the financial implications. There is some indication from central government that the 60/40 split to cover costs may be changed in the medium term future.

The risk:

A significant emergency event occurs during the 10 year period, which Council cannot afford to fund within the current budgets.

So we will:

Ensure that we have adequate insurance to cover the district's assets against such events. We will ensure that the commercial insurances are at a level to cover the district's assets against such events when taking into consideration Central Government's role in disaster recovery and restoration.

We will also continue to give focus and attention to our involvement with sub-regional Civil Defence activities, emergency management and business continuity planning. In the event of an emergency, our response will be immediate, with appropriate resources redirected for that purpose.

If a significant event occurred this would result in unforeseen costs which would place demands on Council's funding streams, in this case mainly debt funding. A committed cash advance facility of $7.5m is available to be called upon in the event of a natural disaster.

4. Climate change

We assume:

That the Waipa District can expect more frequent extreme weather events (drought and heavy rainfall) with little change in the average annual rainfall.

Our level of uncertainty:

Medium

The risk:

The design of our existing infrastructure may not sufficiently take into account the localised effects of climate change such as increased rainfall or drought conditions. As a result our environment, communities and our economy could be negatively impacted.

So we will:

Continue to ensure stormwater design includes allowance for climate change as required by legislation. All new developments have a protected 2nd flow path (often the road then to a gully) for events exceeding the primary system.

Any renewals of stormwater systems will be designed using the Waikato Regional Infrastructure Technical Specification and therefore account for climate change. Further details of our planning for the impacts of climate change can be found in our Stormwater Service Asset Management Plan document.

5. Economic environment

We assume:

Economic conditions will follow a steadily growing trend for the next two to three years in line with forecasts and Government fiscal policy. Strong population growth levels are forecast for the district which will translate positively to our economy

Our level of certainty:

Medium

The risk:

Economic factors vary significantly, from the assumptions in this plan which then affects our ability to deliver on the agreed work programmes either in terms of the scope or timing of the work.

So we will:

Review work programmes and budgets annually. If conditions worsen, then appropriate reductions and changes will be made and signalled in future annual plans.

6. Growth

We assume:

Growth projection data is based on the University of Waikato (UoW) study completed in late 2016. Waipa District Council has elected to adopt the ‘medium’ projections (rather than low or high). Between 2018 to 2028 the UoW medium projections forecast a district wide population increase of approximately 17% with more than 5000 new houses required over the next 10 years. The urban centres will receive the majority of this growth, Cambridge in particular. Part of the driver in housing demand is residents per dwelling are forecast to reduce with an increasing proportion of elderly residents and more common incidence of split families.

In the National Policy Statement on Urban Development Capacity (NPS-UDC) Waipa is defined as a high growth area. As such our Council is required to enable the supply of 20% (short term) or 15% (long term) more land than the forecast demand in order to attempt to provide market choice and alleviate house price pressures.

Our level of uncertainty:

Medium. A rapid rise in one and two person households is predicted; however, there is significant uncertainty about how this will observed in the types of housing choices people make.

The risk:

Growth factors vary significantly from our assumptions affecting our ability to fund and deliver on the agreed work programmes in a timely manner. Should actual growth be less than forecast, a risk is we build infrastructure without being able to recover costs quickly via Development Contribution revenue. Should growth be higher than expected, there is both an construction inflation risk and a risk that we will struggle to procure resource to deliver against demand.

So we will:

Monitor growth and the housing market demand and supply in accordance with the NPS-UDC directives. Where the population or market behaves differently than forecast, we will review the timing of infrastructure development and the staged rezoning of land and structure plan development as per the guidelines of our Waipa 2050 growth strategy. Changes will be signalled in future annual plans.

High level analysis has indicated that with a 30% reduction in growth, with all other conditions remaining the same (infrastructure development completed on time) Council's debt would increase by $52.6m by the end of the 10 years and remain within the total debt cap.

7. Growth – Impact on rates

We assume:

Based on the projected population increase over the 10 years, the expected growth in the rates revenue will be as per the table below.

The calculation of the growth in rates revenue is based on the number of additional properties each year at the 2017/18 rates.

Table 1: Forecast percentage increases in rates revenue

2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
2.05%	2.10%	2.46%	2.43%	2.57%	2.35%	2.35%	2.28%	2.20%	2.18%

Our level of uncertainty:

Medium

The risk:

Growth factors vary significantly from our assumptions affecting our ability to deliver on the agreed work programmes either in terms of the scope or timing of the work. In a volatile market, the distribution of rates across ratepayers will change due to revaluations.

So we will:

Monitor growth projections against actual levels. Where significant changes occur our work programmes and budgets will be reviewed and amended accordingly. Changes will be signalled in future annual plans.

8. Borrowing and interest rates

We assume:

There will be ready access to loan funds at competitive rates. Interest rates will track in line with the projections prepared by our financial advisors. Interest rates for investments will be set at a margin compared to external debt rates.

The table of interest rates used are:

Table 2: Table of interest rates

Year to	Bancorp Projected borrowing rate (includes margin)
June 2019	4.11%
June 2020	4.40%
June 2021	4.40%
June 2022	5.40%
June 2023	5.90%
June 2024	6.40%
June 2025	6.40%
June 2026	5.90%
June 2027	5.90%
June 2028	5.40%

Our level of uncertainty:

Medium

The risk:

Interest rates will increase significantly from the rates used in preparing this plan. This could have an impact on rates increases and our ability to deliver on the agreed work programmes.

So we will:

Manage changes in interest rates as set out in our Treasury Management Policy, taking advantage of hedging, fixed rates and swaps.

For a scenario entailing an increase of 2% in the projected interest rates from year 2, with all other conditions remaining the same, Council's average rates over the 10 years would increase by 0.47%. Debt servicing ratio is still within the 15% limit but the rates increase percentage is slightly over the quantified limit on rates increase in year 5. Therefore adjustment of other costs will need to be made for the rates increase percentage to stay within the quantified limit in year 5.

9. Changes in legislation

We assume:

We will continue to see central government introduce change (such as Urban Development Authorities) to influence economic, social and environmental outcomes. There will continue to be change as seen in recent years to key legislation such as the Local Government Act 2002 and Resource Management Act 1991 as the role and functions of local government continue to evolve. There will continue to be the addition of new regulatory areas, some devolving to local government such as freedom camping and Easter trading, others driven by new technology such as drones and electric or self-driven cars. Local government will continue to have an increasing role in civil defence, managing emergencies and events, and in areas such as economic development and social housing.

Our level of uncertainty:

Medium

The risk:

Compliance with such diverse, unconnected and in some cases very historical legislation as well as National Policy Statements is a very challenging task for councils. New or amended legislation frequently involves additional regulation, reporting, resources and expertise as well as community input in to the development of associated policies or bylaws. This can be very difficult for smaller councils. Legislation may require significant change to the way we currently perform by either adding new functions, removing existing ones or changing the nature of and/or how these are undertaken.

So we will:

Continue to work with central government through LGNZ and other forums to influence policy and legislative change and to make submissions. We will continue to collaborate as a region or sector in responding to change and to streamline plans, policies and strategies. We will continue to monitor changes in legislation and, where changes are proposed, provide input regarding the effects and implications, we will also review our work programmes and budgets and amend these accordingly. Changes will be signalled in future annual plans.

10. Inflation

We assume:

The cost of future projects included in this plan will be consistent with the Business and Economic Research Limited projections for the local government sector, the table below shows the inflation rates for each activity. The salary assumption set at 3% each year is an internal assumption based on history and not part of the BERL inflation rates.

Table 3: Inflation rates for each activity

	Roading	Water	Community Activities	Planning & Regulation
Year 1				
Year 2	2.2	2.5	2.0	2.1
Year 3	2.2	2.3	2.1	2.1
Year 4	2.3	2.4	2.1	2.1
Year 5	2.4	2.4	2.2	2.2
Year 6	2.4	2.5	2.3	2.3
Year 7	2.5	2.6	2.3	2.3
Year 8	2.6	2.6	2.4	2.4
Year 9	2.7	2.7	2.4	2.4
Year 10	2.8	2.8	2.6	2.5

Our level of uncertainty:

Medium

Council has a higher level of confidence regarding project costs in the short term but less certainty in the longer term even with the BERL projections due to fluctuations in the economy.

BERL has provided further inflation projections for the Waikato / Tauranga region in November, these are higher than that of the national inflation projections, for the first four years. Council has opted to use the national projections due to the uncertainty of Central Government's capital works program (a major contributor to the regional inflation) and Immigration policy, the uncertainty in how the localised inflation projections were constructed, the timing of receiving the regional projections and the majority of the capital projects after year 3 have been priced on concept plans, not structure plan or design plans.

The risk:

Price level changes increase significantly from those used in preparing the work programmes and associated budgets. Higher costs could result in additional funding being required to maintain the existing levels of service. Higher costs relating to capital expenditure could result in higher debt levels and increased operating costs from interest expense leading to increases in rates.

Should price level changes decrease from those used to prepare the budgets, then there would be a favourable impact on Council's operating and capital expenditure budgets and rates.

So we will:

Monitor cost projections against actuals, with significant differences and associated responses such as changes in levels of service reflected in budget forecasts and annual plans.

Inflation will increase both the costs and the targeted rates cap of LGCI plus 2%, mitigating the possible breach of the rate cap for operational spend. The regional projections forecast by BERL suggest a 1.8% increase in inflation above that projected (for years 2-4) in the National projections. This would increase the total capital works programme by $17m, resulting in an increase in the total debt by $13.6m over 10 years, peaking in year 7 at $205.5m. This is below the current debt capacity of $236m for the same year.

11. External fundraising

We assume:

External fundraising will be successful so that the particular projects proceed as planned.

Our level of uncertainty:

Medium

The risk:

Projects requiring community funding are not able to proceed because fundraising is unsuccessful either in terms of reaching the agreed target or timeframe. The projects that are dependent on successful fundraising initiatives include the Te Awamutu Discovery Centre and Cambridge Pool.

So we will:

Monitor the progress of planned community fundraising and assess how they impact affected projects. Council will make an assessment of the likelihood of successful achievement of external fundraising targets and any impact of a potential shortfall on the viability of a project before resolving to proceed with detailed design and/or construction contracts.

Where Council is supporting a community led project that relies upon other fundraising sources too, Council's financial support will be contingent on other fundraising sources contributing a necessary minimum to make the project viable.

12. Insurance

We assume:

Council will continue to work with the Waikato Local Authority Shared Services (LASS) for the best value for money insurance policies. This includes the use of commercial insurance markets where these markets provide the best value for money for the shared service and individual councils.

Insurance premiums are inflation adjusted for the 10 year period, including increases every three years in material damage insurance due to valuation increases, and two yearly increases for the underground infrastructure insurance due to valuation changes in the underlying assets.

Our level of uncertainty:

Medium

The risk:

Insurance costs increase significantly more than expected. Increases in insurance costs are usually funded by rates and this will impact on rate increases.

So we will:

Monitor projected insurance costs against actuals, with significant differences and associated responses reflected in budget forecasts and annual plans. Savings in insurance expense due to market conditions will be transferred to insurance reserve to fund insurance excess.

13. Income from the development and sale of surplus Council property

We assume:

That income from the development and sale of surplus Council property will be received at the levels and timing indicated in the financial statements.

Our level of uncertainty:

Medium

The risk:

That any cash flow delays will require interim bridging in the form of additional borrowing and interest cost especially for projects which are dependent on funding from the development and sale of surplus Council property.

So we will:

Monitor market conditions and the progress of our property sales programme, responding to any changed cash flow circumstances in each annual plan or 4 monthly reforecast

14. Local government structure

We assume:

There will be no significant changes to the structure of local government in the Waikato sub-region during the next 5 to 10 years. The indications are that change will not be imposed on local government, which is likely to remain the case whilst there is collaboration at a regional level, such as through the Waikato Mayoral Forum.

Our Level of uncertainty:

Low

The risk:

Change to the current governance structure could lead to less local democracy and decision making. The Government signals changes within local government that results in a change to our organisation, in terms of structure and/or the services we offer that we had not anticipated or planned for.

So we will:

Continue to work actively with councils in our region to identify opportunities such as shared service arrangements that will enhance the efficiency and effectiveness of our operations. Any major proposed changes will be evaluated and the implications signalled through appropriate consultation processes.

15. Local government shared services

We assume:

The Waikato Mayoral Forum and Waikato Local Authority Shared Services (LASS) have initiated a number of collaborative initiatives aimed at improving the efficiency and effectiveness of Local Government in the Waikato Region. These include Waikato Means Business, the Waikato Plan, shared Rating Valuation Data Base, shared policy and planning, shared Health and Safety Contractor pre-qualification system, shared learning and development project, and shared roading management. Benefits of shared services will often present as either reduced (shared) costs for expert advice, or as an improvement in the effectiveness in the project output (not usually a financial measure).

Our Level of uncertainty:

Medium

The risk:

That significant efficiencies are not achieved through collaborative processes.

So we will:

Continue to work with the Mayoral Forum and LASS to ensure we maximise the gains of working collaboratively with other councils.

16. Availability of staff and contractors

We assume:

That sufficient internal and external resources will be available to undertake capital works in the years outlined in the financial statements, over and above resourcing required for business as usual responsibilities.

Our level of uncertainty:

Medium

The risk:

Suitably qualified staff and contractors can at times become scarce and difficult to find, limiting the level of resource available and driving costs upwards. If there is a shortage of resources we may not be able to complete projects in the timeframes indicated and for the costs budgeted.

So we will:

Actively undertake workforce planning on an annual basis, reflecting resourcing needs for capital works projects and taking into consideration business as usual workloads; ensure budgets and work programmes are adjusted accordingly.

17. Central Government subsidy payments

We assume:

The level of subsidies from central government agencies such as New Zealand Transport Agency will remain at 51% for qualifying projects..

Our level of uncertainty:

Low

The risk:

Subsidy rates are significantly reduced from the expected levels. If the subsidy is reduced, the ability to complete the budgeted work programmes will be compromised, either requiring a greater share of costs to be funded by the ratepayers or a reduction in the level of service provided.

So we will:

Review our work programmes, such as roading and waste management, should any changes occur to the expected level of subsidy. Any changes will be included in future annual plans.

18. Sources of funds for future replacement of significant assets

We assume:

Depreciation reserves will fund the renewal of assets, and loans will fund any additional replacement cost if depreciation funding has been exhausted.

Our level of uncertainty:

Low

The risk:

Sufficient funds, both from depreciation reserves and loans, are not available to replace assets at the time required.

So we will:

Consider any changes to replacement of significant assets during the annual plan process (if required).

19. Resource consents

We assume:

Where projects require a resource consent this will be obtained without incurring significant costs of compliance.

Our level of uncertainty:

Low

The risk:

That consenting authorities may either decline consents or impose less affordable conditions than we had anticipated.

So we will:

Continue to work with consenting authorities and key stakeholders to ensure that our consent applications address their concerns.

20. Local Government Funding Agency (LGFA)

We assume:

Council will fund a portion of its borrowings from the LGFA.

Our level of uncertainty:

Very low. A local authority default is considered extremely remote.

The risk:

Council is called upon to fulfil one or more of the LGFA obligations which are:

- In the case of Guaranteeing Local Authorities, a call is made under the Guarantee (this means that participating councils' could potentially be called on to pay their share of another council's or the LGFA's debts. The chance of this is considered extremely remote due to the fact that no local authority has ever defaulted on a loan and the LGFA will hold substantial cash reserves and committed liquidity facilities);
- In the case of Guaranteeing Local Authorities, a call is made for a contribution of additional equity to the LGFA; and
- In the case of all Shareholding Local Authorities, the LGFA is not able to redeem their Borrower Notes.

So we will:

Perform annual reviews of the Statement Of Intent of the company to determine if it's business forecasts will potentially trigger one or more of these obligations and decide and report on these matters at the earliest opportunity.

21. Water demand

We assume:

Active water demand management will reduce the amount of water used per household in Cambridge and Te Awamutu from 250 litres per person per day to 190 litres.

Our level of uncertainty:

High. District wide water meter installations were completed in 2017. It is anticipated these will bring a 15% reduction in district wide demand as a result. There is currently a dedicated summer demand management and water restriction campaign in place, year round education programmes offered and delivered to schools involving Learning and Educating Outside the Classroom (LEOTC) initiatives, public communications and education around the benefits of water meters and how to implement at home water conservation measures. These green initiative type education approaches are in place to drive behaviour change that will decrease the current use in the main towns which averages 250litres/person/day. If the water demand objectives are not achieved the financial implications would result in approximately $8 million of capital works to commence earlier than planned. This will also result in additional depreciation and loan interest costs as a result of bringing forward this capital work.

The risk:

The risk is that the demand does not reduce to 190 litres/person/day and capital infrastructure will need to be brought forward to match demand. There is also a risk that the cost of water will increase; less water used but same revenue will be required.

So we will:

Ensure that a demand management programme continues to be resourced in the 10-Year Plan 2018-28 to actively drive change in behaviour of water use. If capital infrastructure has to be brought forward to meet demand there will be consequential increases in capital expenditure which will have to be funded through debt, development contributions and depreciation. These increases would need to be considered in relation to the prudential limits set out in the Financial Strategy.

22. Development contributions revenue

We assume:

The amount and timing of development contributions revenue to be received has been calculated consistent with the development contributions model and assumptions.

Our level of uncertainty:

Medium

The risk:

The amount and timing of development contribution revenue is dependent on growth and timing of subdivisions. Growth factors vary significantly from our assumptions and affect our ability to fund the growth work programmes.

So we will:

Monitor growth projections and development revenue against actual levels. Where significant changes occur our work programmes and budgets will be reviewed and amended accordingly. Changes will be signalled in future annual plans.

23. Limit on rate increases

We assume:

The average rate increase each year for existing ratepayers will be no greater than the Local Government Cost Index plus 2% forecasted for that year.

Our level of uncertainty:

Low

The risk:

The increase in rates will breach this limit for any given year in the 10-Year Plan.

So we will:

Disclose the nature, timing and extent of the breach and Council's proposed action to address this matter at the earliest opportunity.

24. Demographic changes

We assume:

The district's demographics will trend in accordance with UoW age/sex projections as growth occurs. A significant aspect of the projections is an increasing proportion of our population over the age of 65 over the next 40 years. Here in Waipa, one-third (33%) of the District's population is likely to be aged over 65 by 2033, up from 17% in 2013. By 2063 that proportion is projected to be even greater, around 43%

Our level of certainty:

Medium

The risk:

Demographics do not trend as predicted resulting in changes such as an increased proportion of our population being over the age of 65 earlier than anticipated. Our planning may not have adequately taken into account the needs of our district in a timely way.

The proportion of ratepayers on fixed incomes increases, affecting the affordability of rates increases

So we will:

Monitor population projections against actual changes confirmed through Census data and housing market demand. We will review our services, work programmes and budgets to reflect any significant changes in district demographics. We will also give careful consideration for rates increases with a view to those on fixed incomes. By way of example, the our new rates limit cap is LGCI + 2% year on year, down from the previous 10-Year Plan cap of LGCI + 3%.

25. Sources of demographic information

Council uses a number of sources to inform our decision making regarding future demographic demand in the district. A report on population and dwelling projections was produced by the University of Waikato (UoW) and forms one of the most important source documents for expected future demographic change. The report "2016 Update of area unit, household and labour force projections for the Waikato region 2013-2063", was commissioned by the Future Proof Sub-Regional Growth Strategy Technical Advisor on behalf of the Future Proof Partner councils. The report covers Usually Resident Population Projections, Household and dwelling projections and Labour Force projections at a Census Area Unit level. The population projections are based on the cohort component method of projection and provide the medium variant. Subsequently low variant scenario projections were also produced by UoW at the Census Area Unit level.

Projections and forecasts are renewed regularly so any change to expected trends will be picked up early.