

**Consultation 2017/18**

**Support Papers**

**Forecasting Assumptions**

## General forecasting assumptions

(from the Long Term Plan 2015–2025)

### Levels of service

Unless otherwise stated in the individual group of activity sections, service levels are generally assumed to remain the same as at present.

### District population trends

A district population growth assumption of a constant 0.6 percent per annum from the June 2014 Estimated Resident Population (8,680) has been used.<sup>1</sup> This is a total increase of 6 percent over the ten years. The Department of Statistics has projected that most of the increase is in the 65+ age group. The Council's anecdotal experience is that while most of the new properties built in Carterton recently have been for this age group, the consequent property sales have included a significant number to young families coming to Carterton, particularly in the south end of town.

#### **Risk**

Growth does not meet this assumption.

#### **Level of uncertainty**

Low

#### **Reasons and financial effect of uncertainty**

The population growth assumption is based on a fairly low population growth. If population growth is higher than predicted then some projects will go ahead earlier than forecast, and expenditure will be higher than forecast.

### Number of rateable properties

The growth in rateable properties has slowed somewhat but continues to be positive. The number of rateable properties is assumed to reach about 5,250 by 2025, which is a growth of 12 percent over the ten years of the Plan. See table below.

Projected number of rateable properties as at 30 June										
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
4,670	4,750	4,820	4,890	4,940	4,990	5,040	5,090	5,140	5,190	5,250

#### **Risk**

Growth does not meet this assumption.

#### **Reasons and financial effect of uncertainty**

The growth has been based on recent changes in rateable properties and takes into account ongoing development in the district. Should such growth not continue then some projects will not go ahead and expenditure will be lower than forecast. If growth is greater than predicted, then some projects will go ahead earlier than forecast, and expenditure will be higher than forecast.

### NZTA

Subsidies from the NZTA have been included at the approved rate of 53 percent and the approved (reduced) dollar level for the same period.

<sup>1</sup> Department of Statistics. *Sub-national Population Projections: 2013(base)–2043*, Medium series

### **Risk**

Changes in subsidy rate, total subsidy dollars, and variation in criteria for inclusion in subsidised works programmes. The total subsidy dollars may not increase as assumed.

### **Level of uncertainty**

Medium. The next review point by government is in three years' time, before the next Long Term Plan is prepared

### **Reasons and financial effect of uncertainty**

Last year, the government reviewed the subsidy and funding policies, and has not indicated any further changes to the subsidy rate. If the rate or dollar level of subsidy decreases more than has been assumed, roading projects may be reprioritised, or scaled down, or they may be funded through a different source such as increased borrowing or rates.

## **Resource consents**

The Council operates its infrastructure under a number of resource consents, most of which will need renewal during the course of the next ten years:

- The Council's resource consent to take water from the Kaipaitangata Stream for the urban water supply expired in 2013. An application has been lodged to renew the consent. The consent for the supplementary bores expires in 2034.
- A resource consent was sought in 2016/17 to continue to bury sewage sludge at the adjacent landfill (closed to the public).
- The consent for the discharge to air, land, and water in relation to the sewage treatment plant expires in 2017.
- Consents to take water for the water race network and to discharge back into a range of natural water courses expire in 2023.
- The district-wide comprehensive consent for discharges from the stormwater system expired in 2016.

### **Risk**

GWRC will not approve the Council's application for new or renewed consents. Alternatively, it may place more restrictions on the activity sought, or require substantial monitoring or mitigation work. Some increased costs for monitoring have already been included in the Plan, but these may be insufficient. Consent conditions may also be affected by the current review of the Regional Council's Natural Resources Plan.

### **Level of uncertainty**

Low

### **Reasons and financial effect of uncertainty**

During the development work at the sewage treatment facility and the associated irrigation, the Council has been working closely with the Regional Council, and improvement plans can be modified if necessary.

There is the possibility that future consent will restrict water take from the Kaipaitangata Stream during low flow/high demand periods, placing increased demand on bore water source and storage. It is likely that there is insufficient pumping and storage capacity at the supplementary facility.

## **Asset condition**

Asset management plans have been prepared for major infrastructural assets, and include renewal and capital programmes. These plans include assessments of asset condition, lifecycle and demand management. The Council considers that this planning information is reasonable and supportable. There are no unstated asset disposals that will impact significantly on the plan. There are no unstated asset acquisitions that will impact significantly on the plan.

### **Risk**

Asset management plans are materially incomplete. Assumptions about condition and lifecycle are materially incorrect.

### ***Level of uncertainty***

Low to moderate

### ***Reasons and financial effect of uncertainty***

Asset management plans are updated regularly following 'best practice' as prescribed by the New Zealand Infrastructure Asset Management Manual. The asset inventories and condition ratings for roading infrastructure, which are the Council's most significant assets by a considerable margin, are stored and maintained in the RAMM database. It was audited by NZTA in 2016 and found to be adequately maintained. The Council has implemented a new asset management system for managing its "three waters" infrastructural assets. Opus Consulting performed a review of the data as part of the June 2016 revaluation.

## **Insurance**

Insurance costs increased sharply over the last three years. The Council's broker has advised that the underlying adjustment by reinsurers to risk has levelled off, and increases are likely continue through the ten years of the LTP in line with asset price level adjustments. Currently the Council has full cover for above ground assets, while infrastructural assets have limited cover provided by the Local Authority Protection Programme Disaster Fund (LAPP).

### ***Risk***

Reinsurance costs escalate beyond forecast budgets. Cover may not be available for certain assets or risks. LAPP may not be able to secure cover for the 40% balance not assured by central government.

### ***Level of uncertainty***

Medium

### ***Reasons and financial effect of uncertainty***

Any further significant earthquake events in New Zealand in the next ten years would impact on renewal costs. The cost of insurance may be greater than forecast leading to unbudgeted expenditure. The cost of reinstating LAPP cover would be significant, funded by additional rates. The Council will need to consider the trade-off between self-insurance or paying higher insurance premiums, funded by additional rates.

## **External factors**

There will be no unexpected changes to legislation or other external factors that alter the nature of services provided by the Council. It would be extraordinary for unexpected changes to legislation to be made. Most changes to legislation are known about well in advance.

At the time of writing this Plan, the Local Government Commission has released a proposal for reorganising local government structure in the Wairarapa region. The Commission has proposed to amalgamate the three Wairarapa district councils into one district council, retaining the Greater Wellington Regional Council as is.

The status quo is still an option, and any final proposal will have to be confirmed by a poll of all ratepayers. The assumption in this Plan is therefore that the status quo will remain for the term of the Plan.

Should a final proposal go ahead and a poll required, the cost to Carterton District ratepayers of a poll is likely to be in the about \$20,000. If the poll confirms the proposal, the Commission has estimated transition costs of \$21 million over the next ten years.<sup>2</sup> Carterton ratepayers' share would be about 20 percent of this.

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<sup>2</sup> Local Government Commission, March 2017. Draft Proposal for Wairarapa District Council.

## Climate change

Human-induced climate change is real and occurring now. It is the biggest environmental challenge we face.<sup>3,4,5</sup>

The International Panel on Climate Change, the United Nations, and other international bodies (of which New Zealand is a member) warn that the world may be approaching a tipping point in terms of our ability to halt runaway climate change.

Changes required are reducing energy use (particularly that which creates carbon emissions), reforestation, and a return to localised, more traditional farming practices. This could be achieved partly through technology but more likely through fundamental changes to societal and economic structures. The behavioural shift will need education, support, and leadership.<sup>6,7</sup>

Central government has said that it is responsible for the mitigation of climate change (slowing down and reversing climate change), using an emissions trading scheme,<sup>8</sup> and that local government must provide for 'adaptation' (dealing with the effects of climate change), such as managing the effect of weather extremes.<sup>9</sup> The Wellington Regional Council has prepared a Climate Change Strategy<sup>10</sup> for adaptation in Wellington and Wairarapa.

### **Risk**

The effect of climate change occurs more rapidly than anticipated.

### **Level of uncertainty**

Medium

### **Reasons and financial effect of uncertainty**

There is uncertainty about how quickly the effects will be felt and where. Predictions are that weather extremes will be more common and of a greater scale.<sup>11</sup> In Wairarapa that will include more severe drought, wind, and storm events.<sup>12,13</sup> Rising sea levels and associated storm surges are less likely to directly affect Carterton District than its neighbours.

Climate change impacts have been raised in the infrastructure asset management plans and the infrastructure strategy. The Council will keep this subject under review as it will continue to be relevant for future Annual and Long Term Plans. It plans to assess its risk and capability for dealing with significant and worsening adverse weather events.

## Financial forecasting assumptions

### **Revaluation of non-current assets**

Revaluation assumptions have been included in the Plan. These have been done following the Business & Economic Research Limited (BERL) forecasts of price level change adjusters.

Revaluation movements will be shown in the Balance Sheet.

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<sup>3</sup> see for example IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp.

<sup>4</sup> Parliamentary Commissioner for the Environment. 2014. Changing climate and rising seas: understanding the science.

<sup>5</sup> NZ Climate Change Centre summary of NZ findings, see [http://www.nzclimatechangecentre.org/sites/nzclimatechangecentre.org/files/images/research/NZCCC%20Summary\\_IPCC%20AR5%20NZ%20Findings\\_April%202014%20WEB.pdf](http://www.nzclimatechangecentre.org/sites/nzclimatechangecentre.org/files/images/research/NZCCC%20Summary_IPCC%20AR5%20NZ%20Findings_April%202014%20WEB.pdf)

<sup>6</sup> see for example reports and case studies of the international association ICLEI—Local Governments for Sustainability

<sup>7</sup> ICLEI 2015, Seoul Declaration

<sup>8</sup> Climate Change Response Act 2002

<sup>9</sup> Ministry for the Environment, 2008. Preparing for climate change: A guide for local government in New Zealand.

<sup>10</sup> [www.gw.govt.nz/assets/Climate-change/GWRCClimateChangeStrategy7-10-15.pdf](http://www.gw.govt.nz/assets/Climate-change/GWRCClimateChangeStrategy7-10-15.pdf)

<sup>11</sup> NIWA's scenarios report, [www.niwa.co.nz/our-science/climate/information-and-resources/clivar/scenarios](http://www.niwa.co.nz/our-science/climate/information-and-resources/clivar/scenarios)

<sup>12</sup> Greater Wellington Regional Council. 2013. Regional Policy Statement for the Wellington region.

<sup>13</sup> NIWA *ibid*.

**Risk**

Actual revaluation results differ from those in the forecast.

**Level of uncertainty**

Low.

**Reasons and financial effect of uncertainty**

Where the actual inflation rate is different from that forecast, the actual revaluation will be different from that forecast.

**Interest Rates**

The range of interest rates on term debt is calculated at 4.86% - 5.82%.

The range of interest rates on investments is calculated at 4.50%.

**Risk**

That the interest rate will differ from those used in the calculations.

**Level of uncertainty**

Medium.

**Reasons and financial effect of uncertainty**

This will be managed through the Liability Management Policy and Investment Policy. The financial impact is not able to be measured.

**Depreciation**

Depreciation has been calculated on asset values at their latest revaluation date, and on additions at cost afterwards. It is assumed that:

- existing depreciation will continue;
- replacement assets (renewals) affect depreciation as follows;
- asset renewal will equal that of the assets being replaced;
- new assets' depreciation will be the result of their estimated lives and values;
- depreciation on new and renewal programmes will impact in the year following the capital programme.

**Risk**

That more detailed analysis of planned capital works once complete may alter the depreciation expense.

That asset lives may alter due to new technology improving asset lives.

**Level of uncertainty**

Low.

**Reasons and financial effect of uncertainty**

Council has asset management planning and upgrade programmes in place. Asset capacity and condition is monitored with replacement works being planned in accordance with standard asset management and professional practices. Depreciation is calculated in accordance with normal accounting and asset management practices.

**Asset lives**

Useful lives of assets are based on professional advice. These are summarised in the depreciation note within the accounting policies.

**Risk**

That assets wear out earlier than estimated.

**Level of uncertainty**

Low.

**Reasons and financial effect of uncertainty**

Asset life is based on estimates of engineers, valuers and asset managers. Capital projects can be brought forward in event of early expiration of assets (this would affect depreciation and interest of which the amounts are unknown).

**Sources of funds for future replacement of assets**

This is detailed in the 'Council activities and services' section under each group of activities.

The funding of the replacement of future assets is based on the following assumptions:

- The Council has, over the term of the Annual Plan, set revenue levels sufficient to fully fund depreciation of its assets with the exception of roading where approximately 53% of depreciation is funded, the Events Centre, where replacement is likely to be part-funded from community fund-raising, and infrastructure assets funded from loans, where depreciation will not be funded during the term of the loan.
- The funding for the replacement of any individual asset will be funded from the following sources in the following order of priority:
  - From prior year credit depreciation reserve balances
  - From the current year's cash arising from the funding of depreciation
  - Loan funding with a loan being for no more than the life of the asset
  - Special funds set aside for specific purposes identified by Council.

**Risk**

That a particular funding source is unavailable.

**Level of uncertainty**

Low.

**Reasons and financial effect of uncertainty**

As the Council operates a central treasury function, should one source of funding be unavailable for asset replacement, a further option would be available.

**Inflation****Operating revenues and expenses**

2017/18 revenues and expenses have been predicted using estimated dollar values for the 2017/18 financial year. Guidance has been taken from the BERL (Business & Economic Research Limited) forecasts of price level change adjusters for inflation.

**Risk**

That actual inflation differs to that predicted.

**Level of uncertainty**

Medium.

***Reasons and financial effect of uncertainty***

Where the actual inflation rate is different from that forecast, the cost of projects and expenditure will be different from that forecast.

**Investments and return on investments**

The Council's Long Term Special Funds will be retained in their present form throughout the Annual Plan. Additions and withdrawals from the funds have been accounted for in the Annual Plan where identified and required. A rate of 3.5% has been assumed for the return on the Special Funds investment.

***Risk***

That the actual return on investment differs to that budgeted.

***Level of uncertainty***

Medium.

***Reasons and financial effect of uncertainty***

Movement in the investment fund is difficult to predict but best efforts have been used, using past results. The financial effect is unknown.

**Commitments and contingencies**

There are no commitments or contingencies that the Council is aware of that have not been included in the Annual Plan.

**Rounding differences**

Due to the complexities of the financial model, there is a number of insignificant one dollar rounding differences in the financial statements.

**Authorisation for issue**

The Council is responsible for the prospective financial statements, underlying assumptions, and other related disclosures.

**Purpose of the Annual Plan**

The Annual Plan will be prepared in accordance with section 95 of the Local Government Act 2002. The information is prepared to comply with the requirements of the Local Government Act 2002 and may not be appropriate for other purposes.