

SIGNIFICANT FORECASTING, ASSUMPTIONS & RISKS

1. FORECASTING, ASSUMPTIONS & RISKS

Council has made a number of assumptions which underlie the financial forecasts within this LTP. These have been informed by a consideration of social, economic, environmental and cultural issues on a national, regional and local level that impact on Council's planning, activities and operations. These assumptions do not include statements of fact that fall within the decision-making discretion of Council or unlikely events about which assumptions are made¹.

1. WATER REFORM

Assumptions

Council plans to deliver three waters services over the life of this LTP, however the Government's three waters reform creates a high degree of uncertainty on the future ownership and delivery of these services. The receipt of Government funding will enable improvements in water service delivery, support economic recovery from COVID-19 and progress reform in this area. Additional funding will be subject to Government decision-making and reliant on Council demonstrating progress against delivery plans and reform objectives. The Government will provide guidance on the approach to funding support.

Risk

High degree of uncertainty and potential for change in regards to financial and infrastructural planning in the three waters space.

Likelihood

High

Financial materiality

High

Reasons and effect of uncertainty

Uncertainty exists regarding the scale and impact of financial and legislative compliance resulting from the Government's 3-Waters reform and Hawkes Bay 3-Waters service delivery options. Considerable administration of 'shovel ready' and civil construction projects. Second order impacts create further uncertainty.

Changes since 2018-28 LTP

- The Government's three waters reform programme and Hawkes Bay three waters service delivery options review. Associated regulatory and legislative change.
- Targeted infrastructure stimulus investment to enable improvements to water service delivery and ensure period of economic recovery following COVID-19.

2. INFLATION

Assumptions

Council's financial information is based on costs and income adjusted for inflation. The BERL forecasts of price level changes have been used to calculate costs and income for years 2-10 of the LTP. These forecasts are based on a post-COVID-19 'mid-scenario' as the baseline, which is considered most applicable to our local area and economy². Where existing contracts contain cost fluctuation/inflation provisions these have been applied where relevant.

Table 1: Local government cost index, BERL mid-scenario, % change on year earlier.

	Opex	Capex	Total
2019	3.0	2.9	3.0
2020	1.9	2.0	2.0
2021	-0.6	-0.9	-0.7
2022	3.6	4.0	3.7
2023	2.9	3.0	2.9
2024	2.5	2.6	2.5
2025	2.5	2.6	2.5
2026	2.5	2.7	2.6
2027	2.5	2.6	2.5
2028	2.6	2.8	2.6
2029	2.7	2.8	2.7
2030	2.7	2.9	2.7
2031	2.6	2.7	2.6
20 year average %pa	2.2	2.3	2.2

Table 2: Local government cost adjustors, BERL mid-scenario, % change on year earlier.

	Planning & Regulation	Roading	Transport	Community	Water & Environment
2019	3.2	2.3	2.8	2.0	3.8
2020	1.7	1.9	1.8	1.7	2.5
2021	0.5	0.8	0.7	-0.2	-3.8
2022	2.7	3.3	2.9	3.2	6.0
2023	2.5	3.1	2.6	2.7	3.5
2024	2.3	3.0	2.4	2.5	2.6
2025	2.2	2.9	2.4	2.4	2.7
2026	2.2	2.9	2.4	2.5	2.9
2027	2.2	2.9	2.4	2.4	2.8
2028	2.2	2.9	2.4	2.5	3.2
2029	2.2	2.9	2.4	2.6	3.3
2030	2.2	2.9	2.4	2.6	3.4
2031	2.2	2.9	2.4	2.4	3.1
20 year average %pa	2.0	2.5	2.2	2.1	2.5

Risk

Actual inflation will be significantly different from the assumed inflation.

Likelihood

Low in years 1-3. Medium in years 4-10.

Financial materiality

Low in years 1-3. Medium in years 4-10.

Reasons and effect of uncertainty

Uncertainty exists regarding the mid and long-term effects of COVID-19 on the district's economy and recovery, making planning more challenging. From experience, contract tender prices can vary materially from the Local Government Cost Index (LGCI) due to the remoteness of the district and the size of the contracts that the Council will seek to place. It is conceivable that demand pressures that are created from COVID-19 economic recovery stimulus packages may exacerbate this issue. Council will seek to mitigate this by partnering locally and through collaborative procurement practices within the Hawke's Bay region. Inflation is affected by external economic factors. Council's costs and income will increase by the rate of inflation unless efficient gains can be made.

Changes since 2018-28 LTP

- Economic challenges and recovery as a result of the COVID-19 pandemic.
- Government's three waters reform programme and Hawke's Bay water service delivery options review. Associated regulatory and legislative change.

3. CLIMATE CHANGE & NATURAL DISASTER

Assumptions

Potential climate change effects are likely to impact on our infrastructure and affect Council's ability to deliver levels of service. Council's planning includes scenarios which factor in the occurrence of more frequent and intense weather events. These reach levels of significance within the period covered by Council's infrastructure strategy. Council's response to climate change helps it identify key assets at risk, recognise impacts in asset and financial modelling and prioritise funding for resilience. It will support Council to identify critical components of its networks, and prioritises renewals so that the network can continue to operate.

Risk

More frequent and intense weather events that create increased risk or damage to Council's infrastructure and activities.

Likelihood

Medium-High

Financial materiality

High

Reasons and effect of uncertainty

Although Council has faced natural disaster events in the past, and coped adequately, climate change predictions are that weather events will become more frequent and intense. These may have implications on Council's infrastructure and activities. There may be increased risk to coastal roads and infrastructure from coastal erosion and inundation, increased storminess and sea-level rise. Flooding and heat are predicted to impact the roading networks in our district. Drought will likely result in water shortages, increased demand for irrigation and increased risk of fires. Council expects this may impact on the provision of safe drinking water, the disposal of wastewater and stormwater.

The potential effect of a natural disaster on Council's financial position is dependent on the scale, duration and location of the event. Central government assistance and insurance contracts would reduce some of Council's financial risk.

Changes since 2018-28 LTP

- National climate emergency declaration by New Zealand Government in December 2020.
- Regional climate emergency announced by Hawke's Bay Regional Council in June 2019.
- Greater regional emphasis on response to climate change. HBRC has made climate change a focus in all its decision-making areas and relevant work programmes.
- Recommendation from OAG for Councils to engage in comprehensive discussion of resilience and climate change issues with their communities.

4. FUNDING SOURCES

Assumptions

Council's sources of funds are as per the revenue and financing policy. Council will continue to receive external funding at current levels from government agencies such as SPARC, MSD and DIA. Council will continue to apply for government funding through various channels.

Risk

Some revenue sources may be not achievable. Government agencies may reduce or eliminate funding for various programmes.

Likelihood

Low

Financial materiality

Low

Reasons and effect of uncertainty

Council has undertaken a review of its revenue and funding policy and the rationales for its funding allocations. The funding assistance rate for the land transport system from Waka Kotahi (NZTA) is confirmed for 2021-2024. Fees and charges are based on levels regularly achieved, and adjusted for specific initiatives or conditions. Council's rating system has been reviewed and consulted upon to deliver a system that is simpler, ensures appropriate distribution and is affordable for more ratepayers. Rates are consulted upon and controlled by prudent thresholds.

Council has received significant additional funding from the Provincial Growth Fund to assist with various large-scale projects. Council will continue to apply for such funding. As part of the Government's three waters reform programme, Council has received significant funding to support investment in the district's three waters infrastructure. This may comprise additional tranches of funding and specific agreements to key reform milestones and Council has taken a conservative view with regards to the likelihood of such funding being available in the future.

Changes since 2018-28 LTP

- Significant changes to Council's rating system and its revenue and financing policy.
- Council has received significant funding from PGF to assist with various large-scale projects in the district.
- Council has received significant funding to support investment in the district's three waters infrastructure.

5. EXTERNAL BORROWING SOURCES

Assumptions

Council will continue to receive funding and financing from an approved banking institution.

Risk

The bank does not continue to provide finance to fund Council's activities.

Likelihood

Low

Financial materiality

Medium

Reasons and effect of uncertainty

Council believes that the likelihood of the withdrawal of bank funding is low, due to the good credit rating and relatively low risk it has as a public entity. As a member of the Local Government Funding Agency (LGFA), Council has an alternative source of debt funding. Council also has the ability to set rates at a level sufficient to cover its costs.

Changes since 2018-28 LTP

- Council became a member of the LGFA in 2018, shortly after the LTP 2018-28 was adopted.

6. RATING

Assumptions

The bases for calculating and allocating rates will be appropriate throughout the life of the LTP.

Risk

Groups of ratepayers are significantly affected by changes to the rating system, rating revaluations, or changes to Council's activities.

Likelihood

High

Financial materiality

Medium

Reasons and effect of uncertainty

Council's rating system has been reviewed and consulted upon to deliver a system that is simpler, ensures appropriate distribution and is affordable for more ratepayers. Differentials have been applied to mitigate effects. When Council reviewed its rating system and revenue and financing policy, it consulted with the community on the most appropriate rating methodology. It has also undertaken a review of its revenue and funding policy and the rationales for its funding allocations. Rates are consulted upon and controlled by prudent thresholds. Property values could change significantly and only in certain areas of the district.

Changes since 2018-28 LTP

- Review and change to rating system
- Review and update of revenue and financing policy
- Rating revaluations

7. USEFUL LIVES OF SIGNIFICANT ASSETS

Assumptions

Council has estimated the useful lives of its significant assets, as detailed in the Statement of Accounting policies.

Risk

Assets will not last as long as forecast and will need to be replaced before funds are available.

Likelihood

Medium

Financial materiality

Medium

Reasons and effect of uncertainty

Council has an asset management planning and upgrade programme in place. Asset capacity and condition is monitored, with replacement works being planned in accordance with standard asset management practice. Council has growing concerns about the impact climate change will have on the life-span of its infrastructural assets.

Changes since 2018-28 LTP

- Three waters review and associated legislative and regulatory change.
- Greater national and regional emphasis on response to climate change and the impact it has on infrastructural assets.

8. CURRENCY MOVEMENTS & ASSET VALUES

Assumptions

Currency movements of exchange rates will not fluctuate significantly during the life of this LTP.

Risk

Council's costs are adversely affected by foreign exchange movements.

Likelihood

Medium

Financial materiality

Medium

Reasons and effect of uncertainty

Council does not have direct exposure to currency movement in respect of significant assets or liabilities and is not aware of any material dependencies on overseas inputs within its major contracts. However, the Wairoa economy is underpinned by a strong primary sector with a substantial export component. Parts of the community that depend on these markets to thrive may be adversely affected by exchange rate movements which could, in turn, affect the demand and perceived affordability of Council services.

Changes since 2018-28 LTP

N/A

9. CONSENT RENEWALS

Assumptions

Council basis its future projections on the expectation that consents will be renewed for its activities including wastewater, waste management, water supply and stormwater.

Risk

Approving bodies will fail to renew the consent renewals that Council requires to carry out its activities.

Likelihood

Medium

Financial materiality

High

Reasons and effect of uncertainty

Council has no reason to believe that any of the consents that it operates under will not be renewed, but are concerned at the implications of potential changes to consent conditions or compliance resulting from the three waters review. Any failure to renew the consents could significantly affect the ability of Council to provide an effective level of service. An update on the wastewater consent is specifically addressed in this LTP³.

Changes since 2018-28 LTP

- Three waters review and associated legislative and regulatory change.

10. NEW AND REPLACEMENT ASSETS, CAPITAL WORK

Assumptions

The construction of new assets increases Council's levels of service, unless otherwise stated. The replacement of existing assets does not mean an increase in levels of service or capacity, unless stated. Programmes are completed within time and budget.

Risk

The replacement of existing assets increases the levels of service due to technological changes or through the adoption of best practice. New assets do not meet the agreed levels of service or do not provide adequate capacity. Delays in the completion of major capital projects may delay completion of other projects.

Likelihood

Low-Medium

Financial materiality

Low-Medium

Reasons and effect of uncertainty

In most cases, increased levels of service are linked with the construction of new assets. Council's asset managers have already adopted best practice techniques.

For most new assets there are relatively long project planning and design phases. Where possible, new assets are designed and constructed with future levels of service and capacity in mind. An increase in private development at Mahia is likely to impact on the demand for future assets.

Council regularly managed capital projects that are carried forward from previous periods. Projects with lower priority and that are less time sensitive may be delayed. Various disruptive technologies, including social media, software-as-a-service, artificial intelligence, e-commerce, drones and automation have implications for our operations. These can be harnessed to reduce costs and improve service delivery, however given the pace of change it is difficult to forecast exactly when and how technologies will progress, and to what end.

Changes since 2018-28 LTP

- Increased use of drones and other technologies to support Council's activities.

11. CAPITAL WORKS COSTS

Assumptions

On average, the costs of major capital works will not vary significantly from costs estimated at the concept stage and adjusted for inflation.

Risk

Some project costs are greater than the estimates, resulting in increased debt levels.

Likelihood

Medium in years 1-3. High in years 4-10.

Financial materiality

High

Reasons and effect of uncertainty

Council has a high level of confidence regarding the costs of capital project in the short term but less certainty in the longer term due to possible economic fluctuations, growth patterns, consent conditions etc. The potential effects of this uncertainty on the financial statements would be difficult to estimate, but may lead to a number of projects being deferred, cancelled or rescope. As an example, through 2019 to 2021 an upgrade to the Mahanga water supply infrastructure was paused and subject to 2 referendums as a result of cost escalations rendering the project unaffordable.

Changes since 2018-28 LTP

- Three waters review and associated legislative and regulatory change.

12. LAND TRANSPORT FUNDING

Assumptions

Ratepayer contributions provide 25% of the funding towards the land transport system, and the Government's subsidy is 75%.

Risk

A change to the Governments subsidy rate, and variation in criteria for inclusion in the subsidised works programme.

Likelihood

Low in years 1-3. Medium in years 4-10.

Financial materiality

Medium

Reasons and effect of uncertainty

The funding assistance rate from Waka Kotahi (NZTA) is confirmed for 2021-2024. However, NZTA funding priorities may change as a result of the Land Transport Management Act 2003.

Changes since 2018-28 LTP

- The funding assistance rate from Waka Kotahi (NZTA) is confirmed for 2021-2024.

13. GENERAL POPULATION AND HOUSEHOLD CHANGE

Assumptions

The population of the district will increase moderately during the life of the LTP. The number of households will increase moderately. Growth in the district is expected to be in Mahia, with an increase in retirees to the area or those returning home.

Risk

Population change will be higher than protected, putting increased pressure on Council to provide additional infrastructure and services. Alternatively, the population could decline, increasing the residual burden on ratepayers.

Likelihood

Low

Financial materiality

Low-Medium

Reasons and effect of uncertainty

Medium growth projections signal small population gains of up to 3% and high growth projections signal 8% during the life of the LTP. Wairoa is projected to account for 60% of total new (permanently occupied) household growth and Mahia approximately 15%⁴. Growth in Mahia will likely be due to an increase in retirees to the area or those returning home. Council will seek to understand the future impacts of development on its infrastructure. This will help it better model the potential financial impacts and prioritise funding accordingly.

Population projects are based on demographic assumptions that do not change quickly and a continuation of the annual average level of population growth in the district. Existing infrastructure and levels of service are not likely to require increased investment in the population is static. A decline in population may not reduce the cost of delivering Council's levels of service, although if it results in extended asset lives, the annual depreciation expense would be lower.

Changes since 2018-28 LTP

- Small population increase.
- Increased development at Mahia.

14. AGEING POPULATION AND SINGLE PERSON HOUSEHOLD CHANGE

Assumptions

The population of the district aged 65 and over is expected to increase during the life of the LTP. The number of single-person households will also increase.

Declines in the population aged 40-64 and two-parent families are expected⁵.

Risk

There will be a decline in the affordability/ability to pay, with more people on fixed incomes and potentially lower household incomes.

Likelihood

High

Financial materiality

Medium

Reasons and effect of uncertainty

Without intervention it is inevitable that increasing costs of Council's activities will become an increasing proportion of fixed household income. Council's review of its rating system and economic development initiatives seek to alleviate this.

An ageing demographic may require an adaptation of public services and infrastructure to meet the needs of an older community.

Changes since 2018-28 LTP

- Increase in ageing population
- Increase in single person households

15. COUNCIL POLICY

Assumptions

Apart from Council's revenue and financing policy, there will be no significant changes to Council policy in this LTP.

Risk

New legislation is enacted that requires a significant policy response from Council. Election of a new Council with different objectives to the current Council.

Likelihood

Medium

Financial materiality

Low

Reasons and effect of uncertainty

Changes to Council policy to deal with new requirements are part of normal business. Any significant change would be assessed in terms of the impact on Council's financial position. Council's significance and engagement policy, and its Maori decision-making policy remain largely unchanged. The Local Government Act 2002 ensures that changes in policy follow due process, including consultation with the public.

Changes since 2018-28 LTP

- Changes to Revenue and Financing policy.

16. GOVERNANCE

Assumptions

The structure of Council's elected representation includes a general ward and Maori wards.

Risk

Applications will be made to Council for a representation review.

Likelihood

High

Financial materiality

Low

Reasons and effect of uncertainty

The Maori Ward will remain in place for the next election in 2022. Council is required to complete a review of its governance structure in 2024.

Changes since 2018-28 LTP

- Triennial elections in 2019.

17. CONTRACTS

Assumptions

No significant variations in terms of price from the re-tendering of operational and maintenance contracts and renewal of service level agreements, other than those variations in this LTP.

Risk

A significant variation in price from re-tendering contracts and renewal of service level agreements.

Likelihood

Medium for years 1-3. High for years 4-10.

Financial materiality

Medium-high

Reasons and effect of uncertainty

Council has been able to manage contracts within a narrow range of cost variation. If contract prices were to increase significantly then it would review the amount of work programmed and undertaken. Adjustment for known and projected increases in contracts have been included. For more information, refer to assumption about Inflation.

18. EXTERNAL FACTORS

Assumptions

Apart from the Government's three waters reform and RMA reforms, there will be no unexpected changes to legislation or other external factors that alter the nature of services provided by Council other than what is stated in this LTP.

Risk

There are unexpected changes that alter the services provided by Council.

Likelihood

Medium

Financial materiality

Low

Reasons and effect of uncertainty

Most changes to legislation are programmed and known about in advance. Only in extraordinary circumstances (such as public outcry over a particular incident) would unexpected changes to legislation be prompted. Central government is likely to share part of any cost associated with major legislative change.