Draft Significant Forecasting Assumptions 2024-34

SIGNIFICANT FORECASTING ASSUMPTIONS – LTP 2024

Assumption	Risk	Level of uncertainty	Financial impact of uncertainty
General assumptions			
Population growth: The district's population is assumed to increase at the rates below. **Household size:** The average household size is assumed to be 2.3 for all years of the LTP.	Population, household, and rating base growth may occur at a higher or lower rate than assumed.	Years 1-3 low Years 4-10 moderate Year 10 onwards high	Any significant increase in population growth above projections will place greater demands on some Council services and facilities such as wastewater, water, stormwater, roading, libraries, and community facilities, and will subsequently raise operating expenditure higher than forecast rate increases. The financial implications for the Council are assumed to be manageable in the short-term but may need longer-term responses.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Population	58,744	59,544	60,382	61,202	61,974	62,748	63,552	64,332	65,182	65,824	66,506
Increase in population #	-	800	838	820	772	774	804	780	850	642	682
Increase in population %	-	1.3%	1.4%	1.3%	1.2%	1.2%	1.3%	1.2%	1.3%	1.0%	1.0%

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Increase in rating base: The number of residential ratepayers is expected to grow each year as more dwellings are built or properties divided: • 2024/25: 0.80%; average of 1.0% from 2025/26 onwards. **Development contributions:** It is assumed that additional infrastructure necessary to accommodate growth will be funded by development contributions. Significant assumptions in relation to development contributions are included in the Development Contributions Policy. The value of DCs collected is dependent on the number of subdivision lots developed and on the level of new service connections taking place. DCs are forecast based on historic data, and financially modelling assumes a consistent level of DC revenue which may vary from the growth model.	The level of subdivision and development activity is difficult to forecast and carries a high level of uncertainty. Any significant increase in population growth above projections will place greater demands on some Council services and facilities which will raise operating costs.	Years 1-3 low Years 4-10 moderate Year 10 onwards high	If development is lower than planned, actual revenue from development contributions will be lower than expected, leading to a higher level of debt and potential re-timing of growth projects. If development is higher than planned actual revenue from development contributions will be higher than expected but demand may lead to the re-timing of projects and there may be additional infrastructure requirements, particularly for greenfield sites. Every 1% of DC revenue not achieved will lead to a reduction in income of $58,000 (on average) across each of the 10 years, reducing available funding for Council activity.

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Climate change: In May 2019, the Council declared a climate emergency on the Kapiti Coast, recognising that our communities are facing significant costs now and into the future to adapt to the effects of climate change. Assumptions for the Kapiti Coast predict rising sea levels, higher average annual temperatures, and increased and heavier rainfall and wind. These changes put the district at increased risk from natural hazard events such as floods, landslides, storm surges, coastal erosion, and inundation. It is assumed there will be more frequent and severe natural events during the life of this Long-Term Plan. More frequent and intense natural events could further increase insurance costs beyond the level budgeted in the current plan.	The effects of climate change or significant natural events could compromise services, and the community's ability to pay for them.	Moderate	The Council has consciously developed work programmes with thought to the potential impacts of climate change through adaptation, mitigation and leadership. Climate change and hazards could have adverse impacts on public and private property, and Council's infrastructure such as roading and stormwater networks. Overestimating the effects of climate change or hazards could result in unnecessary work, but underestimating the effects could impact emergency project works. Either scenario would affect ratepayers as infrastructure and hazard planning are costly. A significant natural disaster could disrupt our economy and day-to-day activity, reducing the ability of our community to pay for services and significantly increase insurance costs. The financial effects of these risks depend on the occurrence and scale of future natural disasters, so the timing and financial impact on the forecasts cannot be readily quantified.

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Levels of Service: This long-term plan does not include any significant changes to its activity service levels.	Economic disruptions leading to increased skill, materials and borrowing costs could lead to the prevailing service levels differing significantly from those estimated.	Low	Community expectations could increase levels of service, thereby increasing both debt and rates funding beyond quantified limits.
Capital programme delivery: The Council proposes a moderate programme of capital works over the 10 years of the LTP within the limits set in the financial strategy, reflecting the need for affordability and deliverability. Successfully delivering the expanded capital expenditure programme will require consenting requirements to be satisfied, and sufficient capacity and capability within both the Council and contracted providers, supported by appropriate financial resources. An element of flexibility across and within budgets may also be required to maintain affordability and deliverability. It is assumed the capital programme will be successfully delivered.	The capital expenditure programme is not delivered as planned.	Low	The Council considers it has adequate capability, capacity, and delivery processes to deliver the proposed capital programme supported by strong procurement, project and contract management practices. Delays to the planned capital works programme may result in reductions to planned levels of service, and cost variations with capex costs likely to inflate over time while short-term borrowing and funding costs would reduce, should projects occur later than planned.

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Local Government Reform: **Three Waters.** The Council's drinking water, wastewater, and stormwater assets will remain with the Council for the foreseeable future following the new Government's repeal of the Affordable Waters legislation. The Council acknowledges that the Government will progress the Local Water Done Well programme to: • introduce greater central government oversight, economic and quality regulation; • consider service delivery models and financing tools including potential establishment of financially separate council-owned organisations; • setting rules for water services and infrastructure investment; and • ensuring water services are financially sustainable, including revenue sufficiency, balance sheet separation, ring-fencing funding for growth. Forecast financials assume ongoing ownership, management, and operations of all three waters assets. No central government financial assistance to assist with the delivery of water services is assumed or budgeted.	For water services Government decisions may materially change planning assumptions over the life of the LTP. RMA change processes may be more resource intensive, complex or longer than anticipated, potentially resulting in higher cost, increased processing times and risk to the district growth plan.	Moderate	Government decisions could materially alter the ownership, management, and funding of three waters assets, although the 2023-elected government has clearly stated its intent to leave water assets in the hands of local authorities. It is likely that the government will, within the first three years of this LTP, make decisions that impact Council work programmes and funding models. Once the government's direction is known for both water services and RMA implications will be reflected as appropriate through subsequent annual plans and LTP's (including LTP amendments if required) in accordance with government advice/instruction. Legislative changes may result in a requirement for more resources, changes to processes, or levels of service, with a corresponding impact on fees and charges, revenues, and costs assumed in this LTP.

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Resource Management: The Council acknowledges the repeal of the Natural and Built Environment and Spatial Planning Acts and the reinstatement of the Resource Management Act 1991 while amendments are considered to make it easier to support and grant consents for development. The Council also acknowledges the government's intention to review and potentially replace the National Policy Statement for Freshwater Management within the current term.			

Assumption	Risk	Level of uncertainty	Financial impact of uncertainty
Financial assumptions			
Inflation: The Council has indexed all operating and capital costs to reflect monetary changes over the life of the long-term plan. Price changes have been indexed using the price adjustors as revised by BERL Economics in October 2023 (see table), except for insurance which has been estimated based on recent market indications	Actual inflation exceeds budgeted inflation.	Years 1-3 low Years 4-10 moderate Year 10 onwards high	If general inflation follows the projection of the Reserve Bank and other economic commentators the projected impacts of changes to pricing levels could be relatively minor, but if inflation increases beyond the projected levels the accumulative impact of higher inflation could have major long-term impacts on the annual rates revenue requirement.

BERL Yearly	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Roading	2.90%	2.00%	2.30%	2.30%	2.20%	2.10%	2.00%	2.00%	2.00%	1.90%
Planning & Regulation	2.60%	2.10%	2.20%	2.10%	2.00%	1.90%	1.90%	1.80%	1.80%	1.80%
Transport	2.60%	2.10%	2.20%	2.20%	2.10%	2.00%	2.00%	1.90%	1.90%	1.90%
Energy	2.90%	2.20%	2.30%	2.30%	2.20%	2.10%	2.00%	2.00%	1.90%	1.90%
Staff	6.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
LGCI	2.90%	2.20%	2.30%	2.30%	2.20%	2.10%	2.00%	2.00%	1.90%	1.90%
Water & Environmental Management	3.60%	2.50%	2.70%	2.60%	2.50%	2.30%	2.30%	2.20%	2.10%	2.10%
Rates	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Community Activities	2.70%	2.00%	2.20%	2.20%	2.10%	2.00%	1.90%	1.90%	1.90%	1.80%
Insurance	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
NZTA Capital Funding	2.90%	2.00%	2.30%	2.30%	2.20%	2.10%	2.00%	2.00%	2.00%	1.90%

Assumption	Risk	Level of uncertainty	Financial impact of uncertainty
Useful lives and depreciation of assets: The useful lives and depreciation rates of Council assets can be found in the Accounting Policies. It is assumed that useful lives will remain the same throughout the LTP, and that assets will be replaced at the end of their useful lives. Planned asset acquisitions are assumed to be depreciated on the same basis as existing assets. Total unfunded depreciation at 1 July 2024 is $3.5 million. The Council plans to reduce this to nil over the life of this LTP.	Assets may need to be replaced earlier than estimated.	Low	The Council has a comprehensive asset management planning process. If assets need replacing earlier than estimated, this may lead to the Council incurring more debt and higher debt-servicing costs than anticipated.
Asset condition and performance: The Council maintains its assets until they reach the end of their useful economic lives, after which they will then be renewed, upgraded, or replaced to maintain the required levels of service. The Council has a well-established approach to asset management planning based on best practice.	Asset management information may be inaccurate.	Low	Asset capacity and condition is monitored, with replacement works being planned accordingly. Depreciation is calculated in accordance with accounting and asset management requirements. As these decisions can have significant financial implications, an asset's useful life is reviewed regularly in accordance with: • age and condition; • criticality of the asset; • degree of risk; • ongoing maintenance requests; • desired versus current level of service; and • the differing economic lives of individual asset.

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Revaluation of property, plant, and equipment: The Council plans to complete revaluations of asset classes on a programme where: • roads are revalued two-yearly; • three waters (water, wastewater, coastal erosion and stormwater) are revalued three-yearly; and • land, land under roads, property and park structures are revalued three-yearly. The following assumptions have been applied to all projected asset revaluations: • revaluation movements will equate to triple the inflation rates applied (for depreciable assets) as in the past revaluation tends to surpass expectations; • the depreciation impact of the revaluation shall take effect in the following year; and • for non-depreciable assets council land including land under roads is forecast to increase by projected inflation rates.	Actual revaluation movements will be significantly different from those forecasts.	Low (short-term) Moderate to high (long-term)	Most of the Council's depreciable property, plant and equipment assets are valued on an optimised depreciated replacement cost basis. Therefore, using the projected local government cost adjustors as a proxy for revaluation movements is appropriate and consistent with the treatment of price changes generally within the long-term plan.

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Waka Kotahi (New Zealand Transport Agency): The Council has projected a subsidy rate of 51% in 2025/25 and following years. .	Changes in the subsidy rate and variations in criteria for inclusion in the qualifying programme of works.	High	Funding from Waka Kotahi is always constrained, and it is likely that a shortfall in funding provided to support the maintenance of the district's transport network, relative to the amount included in the LTP will eventuate. The Waka Kotahi board adopts the National Land Transport Plan at the same time as councils are adopting their LTPs, leaving no time for the Council to consider and model the impacts.
Local Government Funding Agency (LGFA): The Council remains a shareholder of the Local Government Funding Agency (LGFA) and borrows direct from the LGFA which was established to allow local bodies to source lower-cost funding. The LGFA remains the Council's single source of debt. Each of the shareholders of the LGFA is a party to a Deed of Guarantee, whereby the parties to the deed guarantee the obligations of the LGFA and the guarantee obligations of other participating local authorities to the LGFA, in the event of a default.	In the event of a default by the LGFA, each guarantor is liable to pay a proportion of the amount owing. The proportion to be paid by each respective guarantor is set in relation to each guarantor's rating base.	Low	The Council believes the risk of the guarantee being called on and any financial loss arising from the guarantee is low. The likelihood of a local authority borrower defaulting is extremely low and all the borrowings by a local authority from the LGFA are secured by a rates charge

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Borrowing: It is assumed that council will be able to refinance existing loans on similar terms. New loans will be taken out for a maximum period of 20 years except for those projects that have an average asset life of 40 years or more.	New borrowings cannot be accessed to fund future capital requirements.	Low	The Council minimises its liquidity risk by having sufficient credit facilities in place to cover any shorter-term borrowing requirements. The Council's current strategy is to maintain a $10 million credit facility.
Interest rates: The Council acknowledges the changing nature of the national economy. In forecasting likely interest rates this assumption is based on the projected weighted average cost of borrowings. The Council assumes interest rates for the life of this LTP as follows: 4.67% in 2024/25 4.7% in 2025/26 4.98% in 2026/27 5.12% in 027/28 5.45% in 2028/29 5.79% from 29/30 onwards.	Prevailing interest rates differ significantly from those estimated.	Low in the short-term Moderate in the longer-term	Increases in interest rates flow through to higher debt servicing costs and higher rates funding requirements. The Council has mitigated interest risk using interest rate swaps and is governed by a Treasury Management Policy that prescribes best practice interest risk and debt concentration risk covenants.