

Significant Assumptions

One of several key components of the Long Term Plan is the disclosure of significant forecasting assumptions and risks underlying the financial estimates. Due to the nature of the LTP as a strategic plan looking forward into future, we must ensure the information on which decisions within the LTP have been made are reasonable and present minimal risk.

According to Schedule 10 of the Local Government Act 2002, which dictates the contents of the LTP, where there is a high degree of uncertainty we must identify the uncertainty and estimate the potential effects of that uncertainty on the financial estimates.

The forecasting assumptions include such matters as:

- Useful life of significant assets
- Sources of funds for the future replacement of these significant assets
- Growth (population vs. household) and demand
- Inflation
- Depreciation

Forecasting Assumptions do not include statements of fact that fall within the decision making discretion of the Council, nor do they include reasonably unlikely events or probabilities about which an assumption needs to be made. Such matters are included in the Activity Statements or description of activity groups in this document.

Significant Assumptions

List of Significant Assumptions

Forecasting Assumption	Risk	Likelihood of Occurrence	Financial Effect	Effect of Uncertainty																																																				
KEY ASSUMPTIONS																																																								
<p>Inflation - Business and Economic Research Ltd (BERL) provides independent Local Government Cost Index (LGCI) This is based on the Berl numbers provided in September 2017 FM contract + 3% in 2019 for contract re-tender</p> <table><tr><th>Year Ending</th><th colspan="3">Annual average %pa</th></tr><tr><th></th><th>CAPEX</th><th>OPEX</th><th>LGCI</th></tr><tr><td>Jun 19</td><td>2.0</td><td>2.0</td><td>2.0</td></tr><tr><td>Jun 20</td><td>2.2</td><td>2.2</td><td>2.2</td></tr><tr><td>Jun 21</td><td>2.2</td><td>2.2</td><td>2.2</td></tr><tr><td>Jun 22</td><td>2.2</td><td>2.2</td><td>2.2</td></tr><tr><td>Jun 23</td><td>2.3</td><td>2.3</td><td>2.3</td></tr><tr><td>Jun 24</td><td>2.3</td><td>2.4</td><td>2.3</td></tr><tr><td>Jun 25</td><td>2.4</td><td>2.4</td><td>2.4</td></tr><tr><td>Jun 26</td><td>2.5</td><td>2.5</td><td>2.5</td></tr><tr><td>Jun 27</td><td>2.5</td><td>2.6</td><td>2.6</td></tr><tr><td>Jun 28</td><td>2.6</td><td>2.7</td><td>2.7</td></tr><tr><td>20 year average %pa</td><td>2.4</td><td>2.6</td><td>2.4</td></tr></table> <p>Source: BERL Sept 2017</p>	Year Ending	Annual average %pa				CAPEX	OPEX	LGCI	Jun 19	2.0	2.0	2.0	Jun 20	2.2	2.2	2.2	Jun 21	2.2	2.2	2.2	Jun 22	2.2	2.2	2.2	Jun 23	2.3	2.3	2.3	Jun 24	2.3	2.4	2.3	Jun 25	2.4	2.4	2.4	Jun 26	2.5	2.5	2.5	Jun 27	2.5	2.6	2.6	Jun 28	2.6	2.7	2.7	20 year average %pa	2.4	2.6	2.4	That inflation will be significantly higher than projected. These are national figures, with insufficient data to prepare robust local figures.	Low	Moderate	May mean improvement projects will be cancelled or levels of service reduced.
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	CAPEX	OPEX	LGCI																																																					
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<p>Population Growth – Population growth has been allowed for at a rate equivalent to the halfway medium to high projection made by Statistics NZ. (Source: Central Hawke’s Bay District Long Term Planning Demographic and Economic Growth Directions 2018-2048 Report)– Currently 13,720 (2017).</p> <table><tr><th>2018</th><th>2028</th><th></th></tr><tr><td>13,840</td><td>14,200</td><td>1.2%</td></tr></table>	2018	2028		13,840	14,200	1.2%	<p>That population growth is higher than predicted.</p> <p>That population growth is lower than predicted</p>	<p>Low</p> <p>Moderate</p>	<p>Moderate</p> <p>Moderate</p>	<p>Will put pressure on Council to provide additional infrastructure and services. Small increases above the current extensions can be covered</p> <p>May put pressure on Council to maintain existing infrastructure and services while the rating base falls.</p> <p>Official population projections are based on a standard set of variables that do not tend to change quickly (fertility, mortality and migration).</p>									
2018	2028																		
13,840	14,200	1.2%																	
<p>Population and Age Breakdown</p> <table><tr><th></th><th>Total population</th><th>% above 65 years</th></tr><tr><td>2013</td><td>13,250</td><td>17</td></tr><tr><td>2018</td><td>13,840</td><td>20</td></tr><tr><td>2028</td><td>14,200</td><td>26</td></tr><tr><td>2048</td><td>14,350</td><td>33</td></tr></table>		Total population	% above 65 years	2013	13,250	17	2018	13,840	20	2028	14,200	26	2048	14,350	33	<p>There will be a decline in the ability to pay measures, with more people on fixed incomes.</p>	<p>Moderate</p>	<p>Moderate</p>	<p>Levels of service could be at risk.</p>
	Total population	% above 65 years																	
2013	13,250	17																	
2018	13,840	20																	
2028	14,200	26																	
2048	14,350	33																	

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Housing Growth – Total new Households per year: <table><tr><td></td><td>No of Households</td><td>Average No per Year</td></tr><tr><td>2018</td><td>5625</td><td></td></tr><tr><td>2028</td><td>6160</td><td>53.5</td></tr><tr><td>2048</td><td>6250</td><td>4.5</td></tr></table> This is based on housing growth not slowing as much as the population as there has been a trend to a lower number of people per household. Demographic trends show growth is likely to occur in urban areas. . (Source: Central Hawke’s Bay District Long Term Planning Demographic and Economic Growth Directions 2018-2048 Report basing household growth on the halfway medium to high projection made by Statistics NZ.).		No of Households	Average No per Year	2018	5625		2028	6160	53.5	2048	6250	4.5	That housing growth is higher than predicted. That housing growth is lower than predicted.	Low Moderate	Low Moderate	Will put pressure on Council to provide additional infrastructure. Council have opted to use a halfway moderate to high growth assumption. If this is not achieved it could result in lower number of ratepayers to fund Council activities and puts affordable Levels of Service at risk.
	No of Households	Average No per Year														
2018	5625															
2028	6160	53.5														
2048	6250	4.5														
Economic Growth – Although only limited economic growth has been recognised in this LTP – it is nevertheless important that there should not be negative growth (or a decline) in the District.	That the number of businesses and employees reduces.	Moderate	Moderate	Lower affordability, decrease in rate payers.												
Treaty Settlements Initial funding of \$1 million per marae is available from the settlement, once governance structures have been set up. This will take effect in 2019.	May be a demand for additional services for rural marae	High	Low	Will put pressure on Council to provide additional infrastructure.												

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<p>Ruataniwha Water Storage Dam – This project will not proceed in its current form, and has not been included in the LTP.</p> <p>Plan Change 6 – This will proceed and will affect current water consent holders, including the Council. There may be more periods where water takes are restricted due to low flow.</p>	<p>Urban water users may face greater water restrictions.</p> <p>For rural users, the less reliable supply of water may affect their businesses.</p>	<p>Low</p> <p>Moderate</p> <p>Moderate</p>	<p>Low</p> <p>Moderate</p> <p>Moderate</p>	<p>If the RWSS did go ahead, the Council would be required to complete the consent processes and this may require extra resourcing which can be charged for as part of the consent process.</p> <p>The impact is not considered likely in the first three years of this LTP. An amendment to the LTP would be required for any change within this period.</p> <p>This may affect the affordability of rates for rural businesses</p>
<p>Climate Change and Natural Disasters - Climate change predictions are that storm events will become more frequent and more intense.</p> <p>Higher sea levels could result in coastal erosion.</p>	<p>Emergency work is required that exceeds normal budgets and the Catastrophic and Adverse Events fund.</p> <p>Existing stormwater systems will not cope with storms of increased intensity.</p> <p>The viability of coastal settlements will be at risk.</p>	<p>Moderate</p> <p>Moderate</p> <p>Low -Moderate</p>	<p>High</p> <p>High</p> <p>Moderate</p>	<p>The potential effect of a natural disaster on Council is dependent upon the scale, duration and location of the event. At the time of such an event, the Council can apply to NZTA for additional funding. Council also holds funds in Reserve to assist in payment of Council's share of any such event.</p> <p>The amendments to stormwater policy and planned improvements in urban catchments will go some way to mitigate this, but will need to be monitored to see that they are sufficient.</p> <p>The District Plan review may be required to take account of changes in coastal areas.</p>

Forecasting Assumption	Risk	Likelihood of Occurrence	Financial Effect	Effect of Uncertainty
Central Government Reform - There will be no effect of central government-initiated structural reforms as a result of the change in Government.	There will be structural reforms initiated by central government that impact on local government.	Moderate	Moderate	While change is likely, the implications cannot be quantified. In addition, some changes may result in positive outcomes for the Council, where responsibility for activities passes from Council to central government agencies. Any changes by Central Government that changes Services delivered or Levels of Service would likely require an amendment to the LTP
One Network Road Classification - A new NZTA classification system that sets the "minimum" levels of service for each road based on its classification which is determined by traffic volumes and the purpose of the road. NZTA has required councils to transition to the new classifications over the 3 years prior to the LTP period, with the requirement for it to be fully implemented by the National Land Transport 2018-21 programme. This will be completed by 1 July 2018 and it is anticipated that all requirements have been met.	The minimum level of service for our roads may reduce through unforeseen consequences of the change. As a result, the amount of subsidy paid to Council may reduce.	Low for years 1-3 Moderate	Moderate to High	The total subsidy available is reduced and this could have a longer term detrimental effect on our network. Levels of service may have to reduce if subsidy rates or level of funding decreases or rates will need to increase to keep the same levels of service.
New Zealand Transport Agency subsidy (NZTA) – Subsidy rates and criteria will remain the same or similar. Level of funding will increase by BERL	The subsidy rate may fall, reducing the amount of subsidy paid to Council. The level of funding from NZTA increase at a lower rate than BERL	Low for 3 years, then moderate	Moderate to High	The subsidy is the largest source of Council revenue after rates and is projected at a base rate of 60%. This is set until 2023, then will be reviewed within the Hawke's Bay Region. Of greater concern is that if the total subsidy available is reduced, this could have a longer term detrimental effect on our network. Levels of service may have to reduce if subsidy rates or level of funding decreases.
Infrastructure Review – that there will be no change in the way that the three waters are provided. There is a review of the provision of three water services being undertaken by the Department of Internal Affairs, which will report at the end of 2018.	This review results in changes in the way the three waters are provided.	Unknown	High	Any changes by Central Government that changes Services delivered or Levels of Service would likely require an amendment to the LTP

Forecasting Assumption	Risk	Likelihood of Occurrence	Financial Effect	Effect of Uncertainty
Drinking Water Supply Standards That there is no change in the Drinking water standards and requirements. There is currently a review of the Havelock North disease outbreak. Some provision for additional monitoring, etc has been allowed. The report was due in December 2017 with the resulting requirements to follow.	That the report results in increased planning, monitoring and testing, above what has been allowed. Additional treatment may be required.	High	Moderate to High	This may require increased rates to fund additional requirements and may require an amendment to the LTP.
Emissions Trading Scheme (ETS) That additional costs and flow on effects are covered in the LTP That there is no reduction in Landfill revenue which might occur as a result of the ETS. Council is to hedge its future ETS liability for 5 years and recover this cost through increased fees and charges at the time.	The value of NZUs required to be purchased to meet Council's liability exceed the value of NZUs hedged and funded through Fees and Charges.	Moderate	Moderate	There could be an unfunded liability - although monitoring of tonnages received into the landfill through the year will allow an adjustment to Fees and Charges to reduce this liability. It is also likely that any significant increases will be attributable to specific customers and adjustments can be negotiated with those customers.
Levels of Service - No changes to levels of service are proposed, either in terms of increasing or reducing them, that will impact on asset requirements or operating costs unless otherwise stated in Activity Statements.	That there are significant changes in customer expectations.	Low	Low	The community has largely defined the levels of service taking into account what they receive and how much they are prepared to pay for that service.
Staff recruitment and Retention That sufficient qualified staff can be recruited and retained to implement the Council plans effectively and efficiently.	Qualified staff cannot be recruited or retained.	Low	Moderate	Levels of services may not be maintained and projects may not be delivered on time and within budgets. This is being mitigated by the development of a performance management framework and succession planning.
Affordability of Rates - That rates rises are affordable of all sectors of the community	Rates rises may not be affordable for sectors of the community	Moderate	Moderate	A rates review may be required, or reduction in the level of service. This is mitigated by having a sound financial strategy and engaging and consulting with the ratepayers.

Forecasting Assumption	Risk	Likelihood of Occurrence	Financial Effect	Effect of Uncertainty
Funding Sources Council is dependent on a number of sources of income through fees and charges. These are usually levied on a user pays basis.	User charges may not be achievable.	Moderate in some activities	Moderate in some activities	This may occur through changes in major businesses or reduction of revenue without the ability to reduce costs, especially in landfill income.
Technology While it is recognised that advances in technology over the forecast period could change the way the activity is carried out, the forecasts are based on known technology as currently used.	New technology could change the way the activity is carried out, affecting both financial estimates and levels of service	High	Moderate	There are both risks and opportunities in technology changes The effect is unknown, but will be reviewed on an on-going basis in subsequent Annual Plans
Asset Life – the useful life of assets is as recorded in Asset Management Plans.	Assets wear out earlier than expected.	Low	Moderate	Asset lives are robust estimates established by engineers and valuers. Capital projects could also be brought forward in the event of early expiration of assets. In addition, some assets may last longer than expected.
Revaluation and Depreciation The cost of new and replacement assets will rise in line with BERL estimates of inflation New capital works will be depreciated according to their expected life for utilities and roading.	A revaluation may alter the depreciation expense.	Moderate	Low	Although actual renewals may vary from the Berl estimates, this will have a Income Statement (but not cash effect) as maintenance of infrastructure is funded based on asset management plans.

Forecasting Assumption	Risk	Likelihood of Occurrence	Financial Effect	Effect of Uncertainty
Sources of funding for replacement of significant assets It is assumed that funding for the replacement of significant assets will be in accordance with the Council's Revenue and Finance Policy and Financial and Infrastructure Strategies. Renewal Works Costs – Renewals to replace existing assets is based on: <ul style="list-style-type: none"> • Asset management plans • Consultants' advice Capital Works Costs – the costs of major capital works will not vary significantly from the estimates at concept stage.	<p>The real cost of renewals exceeds the budgeted amount.</p> <p>That some project costs are greater than estimated, resulting in increased debt levels.</p>	<p>Moderate</p> <p>Moderate to High</p>	<p>Moderate</p> <p>Moderate</p>	<p>Ratepayers are required to fund additional costs to maintain the level of service.</p> <p>Council has less confidence in the long-term regarding the costs of capital projects due to fluctuations in the economy, growth patterns, consent conditions etc. Loan funding of capital works may require loans to be raised that results in Council exceeding its Debt Limits within the Financial Strategy</p>
Contracts – The re-tendering of contracts for operations and maintenance are based on Berl assumptions of inflation. (See FM contract below).	<p>There is a significant variation in price of re-tendering contracts.</p>	<p>Low year 1-3</p> <p>Moderate years 4-10</p>	<p>Moderate</p> <p>Moderate</p>	<p>The risk is likely to come from fluctuating input prices – fuel, construction materials. If contract prices were to increase significantly, Council would be forced to review the amount of work programmed and undertaken or levels of service.</p>
Fuel Costs and road resealing costs - based on Berl assumptions of inflation.	<p>May increase more than forecast, flowing through to other costs.</p>	<p>Moderate</p>	<p>Moderate</p>	<p>This could result in increasing both operational and capital costs and affecting the timing of projects or levels of service.</p>

CHBDC Long Term Plan 2018-28 Supporting Information

Forecasting Assumption	Risk	Likelihood of Occurrence	Financial Effect	Effect of Uncertainty
No changes to government funding regimes for operating costs – including petrol tax and grant schemes.	Central government will remove or alter funding schemes.	Low to Moderate	Low to Moderate	The Council receives approximately \$140,000 as our local share of petrol tax, \$14,900 from Creative New Zealand (on a population basis), and \$9,500 from Sport and Recreation New Zealand annually. The withdrawal of this funding would put pressure on Council to make up for it.

Significant Assumptions

Forecasting Assumption	Risk	Level of Uncertainty	Effect of Uncertainty
FINANCIAL ASSUMPTIONS			
Term of loans – future internal loans will be taken out for: <ul style="list-style-type: none"> 35 year term for all waters infrastructure 10 year term for the district plan 20 year term for other activities 	Loan Capital will not be available when required	Low	<p>Non availability of capital may restrict planned capital projects.</p> <p>This has been mitigated by joining Local Government Funding Agency which borrows from national and international wholesale markets.</p>
Invest Revenue - Council is assuming that dividends will be zero (or immaterial) and that the rate of interest earned on all future investments for the life of this LTP will be 3%	There is potential for interest earned to be higher or lower than estimated.	Low to Moderate	Lower interest rates on Council's investments would lead to lower revenue. However, investment revenue is not significant and as such there would be only a minimal financial impact for Council if these rates were lower than anticipated.
Interest Costs - Council is assuming for the 10 year period of this LTP that the interest rate for new borrowing will be below or equal to 5%	That loan costs will be significantly higher than this.	Low	Higher interest rates will have an impact on Council's interest expense and consequently the affordability of services provided and the ability to afford capital improvements which are funding from borrowing.
Property values - Relative property values used for rating basis remain constant throughout the district over the 10 years of the plan. Staff will obtain updates from QV during the LTP process.	Some parts of Central Hawke's Bay may have larger increases in rateable value than others.	Low to Moderate	This could affect the affordability of rates in some parts of the district. In extreme cases these may mean a review of how rates are applied over the district.
Goods and Services Tax (GST) – GST is excluded from all financial statements, with the exception of accounts receivable and payable, and the funding impact statement. <p>GST cannot be claimed on the Retirement Housing Activity.</p>	n/a	n/a	n/a
Insurance – Insurance costs are based on 2017/18 costs of renewal plus annual BERL increases with no effect of 3 yearly revaluations.	That these costs are significantly higher than budgeted.	High	Insurance may be targeted to cover only key assets to reduce costs.

Significant Assumptions

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ACTIVITY SPECIFIC ASSUMPTIONS			
Asset Management Plans – that consultants employed to prepare Asset Management Plans are expert and experienced.	As a result of consultant's errors Council does not set aside sufficient funds to maintain its infrastructural assets.	Low	Renewals and maintenance of assets is underfunded which impacts on the life and replacement of affected assets.
Regulatory Services Changes A review of the Liquor fees and charges is carried out every 5 years from 2017. These reviews are considered to have minimal effect on the activity.	Central Government legislation causes increased operating costs to Council.	Low	Increased costs require to be met from increased user charges or rates.
District Plan costs – that the cost to complete the District Plan from mid 2019 is on budget.	That additional costs may be incurred	Moderate	Increased costs will be funded from a loan which will increase rate requirements to repay the loan.
Earthquake Prone buildings The Building (Earthquake Prone Buildings) Amendment Act 2016 came into effect on 01 July 2017. This amendment requires Council to identify and issue notices on a property owner for priority earthquake prone buildings in the district within 2.5 years, and other earthquake prone buildings within 5 years	That engineering, compliance and monitoring costs in meeting requirements of the Act have not been quantified in this planning cycle.	Moderate	This may require additional rates to fund the Council's role in this.

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Animal Control – Review of RSPCA agreement to provide pound services Council operates its pound facilities through a service agreement with the Central Hawke's Bay SPCA. Council has established a number of kennels purely for the housing of impounded dogs, with care and sustenance provide for by the SPCA. Due to looming changes in national delivery and funding of services by the RSPCA, this service agreement will require review in November 2017. It is assumed that current terms and conditions of the service agreement will continue for the life of the LTP.	That the RSPCA withdraw the current agreement, requiring Council to establish a fully compliant Pound, elsewhere in the district.	Moderate	This may require increased rates to fund additional requirements and may require an amendment to the LTP.
Change in the provision of Civil Defence services That there will be a change in provision of services. The Hawke's Bay Regional Council will provide staffing for civil defence services other than those required as an ECO. Costs required to be covered by CHBDC have been included in the LTP.	That the proposal to fund civil defence through Hawke's Bay Regional Council will not be adopted	Low	If this decision is made by HBRC it would mean an increase in rates required
Roading Network- The current network will be maintained for the life of the plan	That NZTA will cease to fund some renewals, based on the cost of repair versus the number of residents.	Low 1-3 years Moderate	There may be additional rates required to continue to maintain these pieces of the roading network. Otherwise levels of service will reduce.
Land transport regulation – There will be no significant changes in regulation over the LTP period.	That the regulation changes increase the ratepayer share of the roading costs.	Moderate	Over the second half of the plan period. This could affect the affordability of the levels of service. Changes could also be positive.
Infrastructure Capacity and Growth Water supply, Waste water and Stormwater – Existing zones for the three waters will remain as stated in the LTP and proposed District Plan.	Zones may be expanded. Additional infrastructure capacity will be required.	Low	Capacity for growth has been built into the LTP and is being developed as part of the Urban Growth Strategy for the District Plan.
Bridge Renewal – There is sufficient provision for funding any bridge failure, based on the transfer of funds each year into the bridge reserve fund. To meet the anticipated need.	That this is insufficient to cover the Council's share of bridge replacements.	Low- first 5 years Mod - second 5 years	This could affect levels of service in roading, if money has to be diverted from other budgets to cover costs.

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Landfill operation costs The solid waste management and minimisation plan (WMMP) will be reviewed by July 2018. The Council is selling landfill space to offset the operating costs of the landfill. This plan assumes the income level remains at budgeted levels. Landfill cell extensions included in this LTP are dependent on volumes received into the landfill – and timings of cell extensions may change.	Budgeted sales are not achieved.	Low to Moderate	Council does have an exposure to external sales income and a relatively small pool of potential customers.
Multi-Sport Turf - Other Russell Park projects are tied to the completion of the multi-sport turf in 2017/18 and 2018/19	That with will be completed in 2017/18 to allow other Russell Park projects to proceed	Moderate	This would mean that proposed projects are delayed or reconsidered.