

**Attachment 5:** Planning assumptions, uncertainty and risk

In order to prepare the Long Term Plan 2018-28, Council has made a number of assumptions about the future. These assumptions are predictions that Council will use as a basis for planning, budgeting and decision-making across the ten years of this Plan.

Under the Local Government Act 2002 (the Act), Council is required to identify the significant forecasting assumptions and risks underlying the financial estimates in its 10-Year Plan. These are important in that they provide the community with a level of transparency about the decisions the Council makes about service priorities, projects and funding.

The following table reflects uncertainties, risk and assumptions that influence our key strategies and policy being:

- 30 Year Infrastructure Strategy
- Financial Strategy
- Revenue & Finance Policy

Assumption grouping	Forecasting assumption	Risk	Level of uncertainty (green - low, orange - moderate, red - high)	Potential effects and mitigation measures (on Council financial estimates)																																																	
<b>Strategic direction</b>	<p>A vision of sustaining and enhancing a vibrant Waitaki District and its associated strategic priorities will influence the way Council delivers services and infrastructure to Waitaki's residents.</p> <p>The four strategic goals are:</p> <ul style="list-style-type: none"> <li>• Improved economic sustainability and resilience</li> <li>• A more vibrant District offering a high quality of life for its residents</li> <li>• Increased value for money for Waitaki District ratepayers</li> <li>• A more connected and engaged community</li> </ul>	<p>The geo-political environment and relationship of New Zealand to events within that environment will influence results achieved against a vision. For example future levels of immigration (national &amp; international policy) influence new residents, and international visitor numbers to the District.</p> <p>Private business investment is equally a matter that the Council does not have direct and substantive influence over. It supports indirectly through the services, regulation and district leadership it provides. CCO's make up a very small portion of the Waitaki GDP.</p>	Low	<p>Council has the ability to change direction at any point and invest in activity focused on attracting residents, business, and/or visitors. There would be a short term cost associated with staff redundancies and this expense would need to be included in future financial estimates.</p>																																																	
<b>Demographics</b>	<p><b>Population profile</b> – will change gradually over the life of this Plan. It is projected that the population will continue to age. It is also likely that the proportion of Pacific Islanders and other migrant groups living in our community is underestimated, and we assume that this population will continue to rise slowly.</p> <p><b>Population</b> is projected to be static, which is in keeping with recent historical trends.</p> <table border="1" data-bbox="403 1608 1492 1801"> <thead> <tr> <th rowspan="2">Projection<sup>(2)</sup></th> <th colspan="7">Population at 30 June 2013</th> <th colspan="2">Population change 2013-43</th> </tr> <tr> <th>2013<sup>(3)</sup></th> <th>2018</th> <th>2023</th> <th>2028</th> <th>2033</th> <th>2038</th> <th>2043</th> <th>Number</th> <th>Average annual percent<sup>(5)</sup></th> </tr> </thead> <tbody> <tr> <td>High</td> <td></td> <td>22,800</td> <td>23,800</td> <td>24,800</td> <td>25,800</td> <td>26,700</td> <td>27,600</td> <td>6,200</td> <td>0.8</td> </tr> <tr> <td>Medium</td> <td>21,400</td> <td>22,300</td> <td>22,800</td> <td>23,300</td> <td>23,600</td> <td>23,900</td> <td>24,100</td> <td>2,600</td> <td>0.4</td> </tr> <tr> <td>Low</td> <td></td> <td>21,800</td> <td>21,800</td> <td>21,600</td> <td>21,400</td> <td>21,000</td> <td>20,600</td> <td>-800</td> <td>-0.1</td> </tr> </tbody> </table> <p>Source: Environment Canterbury 2017</p> <p>This Plan is assuming no growth and provides organisational capacity and infrastructure to advance this scenario. The District Plan is currently being reviewed and can potentially influence this assumption. While</p>	Projection <sup>(2)</sup>	Population at 30 June 2013							Population change 2013-43		2013 <sup>(3)</sup>	2018	2023	2028	2033	2038	2043	Number	Average annual percent <sup>(5)</sup>	High		22,800	23,800	24,800	25,800	26,700	27,600	6,200	0.8	Medium	21,400	22,300	22,800	23,300	23,600	23,900	24,100	2,600	0.4	Low		21,800	21,800	21,600	21,400	21,000	20,600	-800	-0.1	<p>The population profile, particularly over 65 may be higher than projected. The number of Pacific Islanders living in the District is likely to be higher than official statistics records note.</p> <p>The LTP has been prepared on the basis that population will not grow, using population projections from the 2013 census as a base. The population may change at rates different than projected e.g. increasing due to investment being made by Council to attract people and jobs into the district. A reduction in population will impact the rating base and the ability of communities to fund services. Either scenario could result in Council's</p>	Moderate	<p>The population of Waitaki is older than the national average, and the percentage of people aged over 65 is growing. The increase in the percentage of people aged over 65 also requires a focus on ensuring there are appropriate facilities and services for older people. In this sector of the population many are on fixed incomes, and management of rates affordability impacts on this group is important to Council.</p> <p>Changes to projected population may place increasing pressure on some Council services due to increased demand over time. An underestimated Pacific population in the official statistics records may also misrepresent the make-up of the district's population, and their needs may not be met.</p> <p>Council will continue to monitor demographic change and adapt or redirect activities to meet needs where possible within reasonable costs.</p> <p>Slower or faster population growth may impact service levels, infrastructure expansion, renewal programmes, and costs (where there is an increased or decreased rates requirements).</p> <p>Where growth requires additional infrastructure (e.g. through subdivisions), Council can require development and financial contributions. Waitaki District Council has been taking a proactive position on catering for an ageing population eg. Its involvement through Waitaki District Health Services in the Observatory Retirement Village.</p>
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	the age profile of the district's residents is changing (ie ageing), Council is not anticipating major changes in the type of service it provides over the life of this Plan.	planned services not matching community requirements.		<p>Over or under estimating the demand for services based on planned growth (positive or negative) can have a significant effect on financial estimates. The potential effects include:</p> <ul style="list-style-type: none"> <li>• The availability of funding to sustain services</li> <li>• Changes in estimates to reconfigure service levels, eg there can be an additional cost, albeit short-term, to scale back service.</li> <li>• Underestimated demand for service results in a 'catch-up' scenario where a Council and community face a reactive situation. Financial estimates are likely to be more robust and reliable in a planned approach.</li> <li>• A growth scenario is likely to have a positive impact on the rating base.</li> </ul> <p>Council's rating base is reviewed annually.</p>
<b>Affordability</b>	<b>Average household income</b> will remain static, and the individual share of national GDP over previous 30 years will continue to decrease. The median personal income in Waitaki in 2013 is \$25,300, lower than the national average. Economic affluence will not be a key driver of demand for increased Council services from the majority of the community.	Economic pressures lead to more residents defaulting on rates payments than expected.	Moderate	Council is mindful of the high number of fixed income households in the District, particularly as the population is projected to continue to age. The issue of affordability of services is relevant when setting fees and charges and rates. Council is taking a cautious approach to prospects for the district's economy, noting that the ageing demographic will mean older residents who are no longer in employment and potentially less able to afford increasing rates.
<b>Organisation</b>	<b>Levels of service</b> - will be maintained unless otherwise stated for the duration of the 2018-2028 Long Term Plan.	Service levels may need adjusting in response to issues identified by the community or other external factors.	Low	Council and its management team review its budget annually through the LTP/Annual Plan process and have the ability to adjust work programmes/budgets as necessary.
	<b>Costs</b> - are anticipated to be stable over the lifetime of the Plan based on historical trends. Capital expenditure estimates are based on Council's best estimates and known planned expenditure.	Costs are higher or lower than expected eg. Contracting costs, resource costs	Low	Council and its management team review its budget annually through the LTP/Annual Plan process and have the ability to adjust work programmes/budgets as necessary.
	<b>Debt levels</b> – there is no significant level of debt at the start of the plan, however, some projects will require loan funding through internal sources.	Higher debt levels may require Council to borrow externally to meet cash flow requirements.	Low	Refer Liability and Management Policy.
	<b>Return on investments</b> - returns from bank deposits and other investments will increase slowly over the term of the LTP from their current historic low levels. Rates projected in this LTP range from 3.65% to 5.05% over the life of the plan. Over the same period, dividends from CCO's are expected to remain steady.  No returns from forestry harvesting have been included in this LTP following significant logging activities in the 2015 – 2018. Instead, the focus of the forestry activity over the term of the LTP will be on re-establishing Council's forestry holdings for future harvesting.	Forecast returns are higher or lower than forecast.	Low	Investment portfolio breakdown.
	<b>Credit availability</b> – Council assumes credit will be available if required on competitive terms and conditions.	Credit cannot be obtained when required and funding is required from another source.	Low	Council will continue to maintain prudent debt levels.
	<b>Borrowing costs</b> - Council does not expect to externally borrow money over the life of the Plan.	Council may need to borrow externally for unanticipated events e.g. sudden and material service level failure and/or rates of	Low	Refer Liability Management Policy.

		borrowing are higher than forecast. Council would first consider internal loan funding using reserve funds or using overdraft facilities.		
	<b>Insurance costs</b> - insurance premiums will rise slightly above current levels plus inflation to take into account the effects of previous earthquake and weather events on the insurance industry nationally. Council will continue to be able to obtain 100% cover. The Local Authority Protection Programme Disaster Fund will continue; and the scope of asset insurance will not extend beyond the current scope of activities and insurance cover. Council adjusted its approach post the Canterbury earthquakes.	Premiums increasing above inflation and/or Council cannot get 100% cover.	Moderate	Any increase in premiums above the level assumed will have an impact on rates. Council may need to make decisions about cover levels during the life of the Plan.
External factors	<b>Climate change</b> – changes in the rate and impacts of climate change will impact Council decisions around land use, regulation and investments in infrastructure. Council assumes that the key service requirement relates to protection of Council owned assets vulnerable to coastal erosion eg. the local roading network and Council's stormwater infrastructure. It is assumed that rates of coastal erosion will remain in line with the rates currently being experienced.	There is risk that negative effects associated with climate change occur at a faster rate and with more detrimental effects. If projections are not taken into account in Council planning, this could impact on the development of capital expenditure projects.	Moderate	Council will monitor and consider the impacts of climate change and respond to changes required to Council's infrastructure (including mitigation and adaptation). Council will utilise guidance from central government and LGNZ based on the best available climate science to underpin our planning.  Financial estimates include provision for Council assets and sites that may be affected. Planning for key infrastructure located on the coastal fringe and vulnerable to coastal erosion is considered in the 30 to 50 year infrastructure planning horizon.  Council will implement the Civil Defence regional model, introduced in 2017, to best effect.
	<b>Adverse weather events</b> – there will be no catastrophic natural or weather events eg. Earthquake or tsunami, over the lifetime of this Plan. Council is assuming that the need for Civil Defence is critical. Council has increased its disaster fund capacity and has the ability to deal with adverse weather events.	Service disruption due to catastrophic weather events pose some risks to property and life.  Council may need to reprioritise resources to respond to the implications of such events including community safety and repairs to infrastructure.	Moderate	Council has a Business Continuity Plan in place. If an event were to occur, Council will focus its operational resource on response and recovery.
	<b>Emissions trading scheme</b> – The Emissions Trading Scheme is retained in its present form.	Changes could occur to the scheme via government policy. Council financial forecasts that embody carbon pricing would be affected.	Low	Forestry assets are maintained with a long term view and programmes are regularly reviewed. Council will replant harvested forests to negate any liability.  Council will monitor waste volumes on an ongoing basis.
	<b>Tourism numbers and composition</b> – domestic and overseas visitor numbers are projected to increase. Council assumes this growth will continue and influence the demand for, and type of services required e.g. transport infrastructure, communications, regulation & enforcement, sanitation services, and Council's funding policy.	<b>Tourism numbers</b> are linked to geo-political, global and national economic trends.	Moderate	A radical decrease in <b>visitor numbers</b> would impact on the local hospitality industry. A decrease in the district's GDP would heavily influence Council decisions on current and future service levels. Council, in conjunction with Tourism Waitaki, monitor and report tourism trends.
	<b>Legislative changes</b> - Council assumes that there will be no sudden (ie. un-signalled) significant change to legislation and that central Government will maintain its current and core service commitments and continue to legislate for increased service levels relating to core services provided by Council eg. health and safety, regulation, monitoring and enforcement; RMA, potable water quality. Council must also continue to meet regional council obligations including higher environmental standards for air and water.	<b>Legislative</b> change is usually signalled over a reasonable time period. The risk is usually associated with uncertainty about implementation.	Moderate	Council may be required to change expenditure or income (for instance rates or user charges). An example could be a sudden and un-signalled change to superannuation.
	<b>Inflation</b> – Inflation rates used for periods beyond 2018/19 have been based on data sourced from Forecasts of Price Level Change Adjustors – 2017 Update, prepared by BERL, as detailed below.	Inflation rates vary from those forecast resulting in changed revenue and expenditure.	Low	Council and its management team review budgets annually through the LTP/Annual Plan process and have the ability to adjust work programmes/budgets as necessary.

	Category	2020	2021	2022	2023	2024	2025	2026	2027	2028			
	Water, sewer, drainage and waste	2.7%	2.5%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%			2.4%
	Planning and regulation	2.1%	2.1%	2.1%	2.2%	2.3%	2.3%	2.4%	2.4%	2.5%			
	Roading	2.2%	2.2%	2.3%	2.4%	2.4%	2.5%	2.6%	2.7%	2.8%			
	Local government administration	2.0%	2.0%	2.1%	2.2%	2.3%	2.3%	2.4%	2.5%	2.6%			
	Transport	2.0%	2.1%	2.2%	2.2%	2.3%	2.4%	2.5%	2.5%	2.7%			
	Salary and wage rates - local govt sector	1.6%	1.7%	1.8%	1.8%	1.9%	1.9%	2.0%	2.0%	2.1%			
	<b>Interest rates on borrowing</b> - Interest rates are assumed to be between 3.8 – 5.0% over the period of the LTP.										Forecast interest rates on borrowing are higher or lower than forecast. Council costs could increase or decrease as interest rates fluctuate up and down.	Low	Council hedges interest rate exposures as per the Liability Management Policy.
	<b>Technology</b> – Advances in technology over the life of the plan could change the way activities are carried out, the forecasts are based on known technology as currently applied within Council.										Assumed economic lives of network assets (particularly waste water) may change due to future technologies that remove the need for a reticulation network.  New technology could change the way activity is carried out, affecting both financial estimates and levels of service.	Low	The impact of changing technology is unknown but is reviewed on an ongoing basis and would be taken into account in the next Long Term Plan. The effects in the interim would be considered in Annual Plans and provided for where necessary.
<b>Significant Assets</b>	<b>Raw water</b> – Raw water for treatment is not expected to constrain future requirements based on current levels of residential and industrial growth projections across the Waitaki District, and based on assumptions for climate change.  The Oamaru service has capacity to meet a level of growth in excess of Stats NZ projections. Services across the wards (Waihemo, Corriedale, Ahuriri) are also in the same position as Oamaru regarding ability to meet a low to moderate growth scenario. Residential/lifestyle growth, above the historical average, in the Ahuriri ward is possibly linked to Central Otago property market activity.										Raw water – risk of constraints over the long term.	Moderate	Water is essential to urban settlement and business activity. Ongoing constraints for whatever reason, would be significant. While constraints are not anticipated, a pattern of low winter snow fall would be serious. Impact on financial estimates in this scenario are unknown. This risk can create uncertainty around financial estimates.
	<b>Roading</b> – There is need for increased funding to maintain the current levels of service for roading in the district plus extra investment to respond to adverse weather effects and heavy vehicles.											Moderate	The Council remains of the view that the roading network is vital infrastructure and that it is important to maintain the current levels of service.
	<b>Asset depreciation rates</b> - No changes assumed.										Additional work on planned capital works may change depreciation expense.	Low	Asset life is regularly reviewed through asset monitoring and testing.
	<b>Asset revaluations</b> – occur three yearly and are line with price level adjustments.										Periods of high inflation or changes in technology may affect the value of assets (and therefore depreciation and rates) as to require revaluations outside of the normal cycle.	Low	Revaluations take place regularly.

	<p><b>Asset replacement and useful life</b> – Council infrastructure is aging and will require ongoing renewal and upgrades. Assets will be replaced at the end of their economic life. Assessments of asset condition are undertaken in accordance with accounting policy including estimated asset lives. Asset information is reliable and reflects the condition and performance of the assets. Useful lives of significant assets are detailed in Asset Management Plans (AMPs) which provide information to support the replacement and renewal of Council infrastructure.</p>	<p>Council's renewal profiles are inaccurate.</p> <p>Asset lives may be shorter than expected. There may be inadequate replacement reserves.</p> <p>Significant assets may fail earlier than estimated.</p>	Low	<p>AMPs and data are regularly reviewed and updated. Assumptions on asset lives are independently reviewed as part of the revaluation process. If assets requirement replacement more quickly, capital expenditure projects may need to be brought forward.</p> <p>Asset life is reviewed regularly through asset monitoring and testing. Council has the ability to bring capital projects forward if assets wear out earlier than projected. Mitigation may involve reprioritising the capital expenditure programme.</p>
	<p><b>Sources of funds for future replacement of significant assets</b> - Council will 'cash-fund' depreciation on assets, particularly those with significant intergenerational equity, including:</p> <ul style="list-style-type: none"> <li>• Water Sewer and Stormwater infrastructure</li> <li>• Rooding network</li> <li>• Council operational properties</li> <li>• Computer and other key Council systems</li> </ul> <p>In other cases depreciation will not be cash funded, for example on community buildings and harbour structures. Council will maintain various reserve funds for cash funded assets. These include bequests, depreciation or asset renewal reserves, financial contribution reserves, and development contribution reserves. These will be used when projects meet specific criteria. Council will borrow if there is a shortfall in the total funding required.</p>	<p>The risk that the cost of replacing significant assets materially exceeds the level of depreciation and forecast borrowing. If the asset replacement proves more expensive than forecast further borrowing will be required. Risk associated with borrowing includes exposure to future interest rates, access to funding, and the rating base servicing depreciation funds.</p>	Moderate	<p>Council's assets base is relatively small which has enabled it to develop models showing renewal requirements and associated expenditure.</p>
	<p><b>Resource consents</b> – resource consents held by Council will not be significantly altered and any due for renewal during the life of the plan can be renewed accordingly.</p>	<p>Conditions of resource consents altered and significant new compliance costs or consents cannot be renewed as expected.</p>	Moderate	<p>Budgets are in place for renewal of resource consents and there is no expectation of significant departure from requirements over the next 10 years.</p>
Funding sources	<p><b>New Zealand Transport Agency (NZTA) financial assistance</b> – Council currently undertakes its roading programme based on a contribution from our ratepayers and a contribution from government through the NZTA. Council assumes that NZTA revenue is locked in for the next three years and will remain relatively unchanged from the 18/19 rate.</p>	<p>Changes in central government funding for roading could impact on Council's contribution to its roading programme.</p>	Low	<p>Council and its management team review its budget annually through the LTP/Annual Plan process and have the ability to adjust work programmes/budgets as necessary.</p>
	<p><b>External funding opportunities</b> – Council will tap in to external funding opportunities where applicable to top up the ratepayer base.</p>	<p>Significant changes in funding or funding sources may result in a revised capital work programme or changes in levels of service.</p>	Low	<p>Refer Revenue and Financing Policy</p>
	<p><b>Revenue</b> – Council will continue to generate revenue from the key areas of rates, regulatory, grants, subsidies, interest, dividends, investments.</p>	<p>The level of revenue is not received or budgeted and debt levels, interest costs and rates requirements will be higher than planned.</p>	Low	<p>Refer Revenue and Financing Policy</p>
	<p><b>Co-funding arrangements</b> - It is assumed that for projects where other partners are contributing part of the funding, this funding will still be available.</p>	<p>Partners will no longer be in a position to provide funding which will result in an increased level of input from Council, or the termination of a project.</p>	Moderate	<p>Council will continue to monitor and consider its ongoing funding commitment as the need arises.</p>

	<p><b>Development and financial contributions</b> – Assumptions on development contributions are included in the updated Development and Financial Contributions Policy. Development contribution income is included in financial forecast statements for all asset groups. From 2021, Council will no longer be able to generate income from financial contributions for open spaces and reserves via developments and subdivisions (Resource Management Act 1991).</p>	<p>The level of development contributions collected could be insufficient to cover the costs of required growth infrastructure.</p>	<p>Low</p>	<p>Costs for infrastructure may need to be met from other allocations. Council will continue to refine cost estimates through the implementation of an updated Infrastructure Strategy.</p> <p>Council and its management team review its budget annually through the LTP/Annual Plan process and have the ability to adjust work programmes/budgets as necessary.</p>
	<p><b>Return on investments</b> - It is assumed that the return on investments and retained earnings on subsidiaries will continue at current levels plus inflation.</p>	<p>Returns lower than expected would impact on Council's ability to fund services and infrastructure and would likely require an increase in rates.</p>	<p>Low</p>	<p>There is an expectation when agreeing on annual performance that higher returns will be generated.</p>