

## Attachment 3: Significant forecasting assumptions

The council has made a number of assumptions in preparing this Long-Term Plan. This is necessary as it ensures that all estimates and forecasts are made on the same basis throughout the ten-year period. The items in this table relate to significant assumptions that underpin financial forecasts.

### NOTES

1. Any assumptions at the activity level are contained in the individual Asset Management Plans and Activity Management Plans.
2. No assumption has been made in relation to currency variations, as the council has no significant foreign currency exposure.

	Forecasting Assumptions	Level of Uncertainty (Low, Medium or High)	Risk	Possible Impact of Uncertainty
	<p><b>Economic Conditions</b> Council has assumed that New Zealand is not in recession during the plan period and economic growth is slow and rising towards the end of the period. Delivery of historic works and new works that support delivery of those projects have been prioritised to keep new investment at a minimum during that period.</p>	Medium	Worldwide economic conditions worsen due to ongoing conflicts and continued pandemic threats.	If there is a recession that impacts our district, and it runs longer than anticipated we will address work programmes through subsequent annual plan processes. Council has both rates remission and postponement policies to assist ratepayers who are experiencing financial hardship.
	<p><b>Legislative Changes</b> This plan is based on current legislation and no adjustments have been made for future changes in legislation.</p>	Medium	There are unexpected changes to legislation that alter the nature of services provided by the council.	Most changes to legislation are known about in advance giving Councils the ability to prepare for implementation. Based on historic trends, additional services have been transferred from central government to local government, although it is noted that the management and operation of three waters is expected be centralised over the coming 10 years. Council would have to consider the costs and user charges/rating required to fund any new services or divest from any existing services. Any financial uncertainty would relate to the speed and cost of implementing changes and training needs for staff.

	Forecasting Assumptions	Level of Uncertainty (Low, Medium or High)	Risk	Possible Impact of Uncertainty
				Council would adjust budgets through an Annual Plan or Long-Term Plan process. It is expected that any changes would be made to encourage efficiencies in service delivery and/or improve outcomes for our communities.
	<p><b>Local Government Structure Reorganisation</b></p> <p>There will be no significant changes to the structure of Local Government in the Waikato region, except for the three waters reform. There will be a focus on greater collaboration between local councils.</p> <p><b>Shared Services</b></p> <p>We will continue to pro-actively explore opportunities and participate in shared services to provide such services cost-effectively.</p>	Medium	The Government signals changes within Local Government that results in a change to the structure and/or services provided by our organisation.	The future shape or form of local authorities could change, which may have consequences for how services are provided and by whom.
	<p><b>Three Waters Reform</b></p> <p>As per SOLGM (Society of Local Government Managers) guidance, there is no fully developed proposal that will inform the development of the Long Term Plan 2024-34.</p> <p>The Long Term Plan will therefore assume that Waikato District Council will deliver these services over the life of the Long Term Plan.</p>	High	The Government proposes via the water reform programme that local authorities continue to be solely responsible for delivering these services.	There would be an impact on finances relating to these services such as, but not limited to, operating revenues, direct costs of running the activities, and value of debt incurred to fund the activities. There would likely be second order impacts which Council would assess as part of the analysis of the proposal (once received).
	<p><b>Changing Weather Patterns</b></p> <p>As per Ministry for the Environment climate projections, it is assumed that the Waikato could experience the following weather pattern changes over the next two decades and beyond:</p> <ul style="list-style-type: none"> <li>Higher temperatures</li> </ul>	Medium	That the council has not made sufficient provision for changing weather patterns and related climate events	If the drought related provisions the council has made are insufficient, then the livelihoods of businesses reliant on council water supplies could be compromised, and landowners could be required to provide their own water for non-potable purposes. Costs to restore usual services could be high and the time taken to rectify the situation

	Forecasting Assumptions	Level of Uncertainty (Low, Medium or High)	Risk	Possible Impact of Uncertainty
	<ul style="list-style-type: none"> <li>• Less frosts</li> <li>• Variable rainfall by season rather than a significant change in the frequency of extreme rain days i.e., more rain in the winter less rain in the spring</li> <li>• Some increase in storm intensity, wind extremes and thunderstorms but little change to the frequency of events</li> <li>• A rise in sea levels</li> </ul> <p>More frequent droughts, increased flooding around river catchments and low-lying coastal areas, coastal erosion and higher risk of landslides have been factored into planning considerations as follows:</p> <ul style="list-style-type: none"> <li>• Council encourages water conservation via a water metering programme</li> <li>• Council has a water reservoir storage capacity of 48 hours for our main towns</li> <li>• Councils roading programme includes preventative maintenance and drainage works each year</li> <li>• A contingency budget for roading emergency works is available for storm related landslide events should they occur</li> <li>• Council is working on a climate resilience plan with the Port Waikato community</li> <li>• Investment in stormwater infrastructure reflects the adjustments required for changes to rainfall patterns</li> </ul>			<p>might be lengthy and compromise the health and wellbeing of our communities.</p> <p>If a landslide event takes place, an application would be made to NZTA (New Zealand Transport Agency) for subsidy. Should this exceed the contingency amount budgeted for local share, operational work programmes would be adjusted to enable emergency works to be completed. This would be dependent on the severity of the event and whether connectivity is compromised. If the works are not urgent a subsequent Annual Plan process will be utilised to address the financial implications.</p>

	Forecasting Assumptions	Level of Uncertainty (Low, Medium or High)	Risk	Possible Impact of Uncertainty
	Climate change is a national concern, and as such should a significant event take place in our district it is assumed that a multi-agency approach would be used to address the impacts.			
	<p><b>Waikato 2070 (Growth and Economic Development Strategy) and the District Plan</b></p> <p>The District Plan governs land use and can impact on the levels, type, and location of growth within the district.</p> <p>The Infrastructure Strategy and related Asset Management Plans have relied on the growth assumptions from Waikato 2070 and land-use provisions from the District Plan.</p>	Low	Timing of structure plans, spatial plans and on-the-ground growth is different to that proposed in this plan.	<p>If growth that is inconsistent with an agreed settlement pattern is permitted, then infrastructure will be under pressure and costs could escalate. The offsetting growth in rating income may not be sufficient to cover the cost of providing infrastructure and could increase the council's borrowings and rating income required for repayments. This could result in planning for growth becoming uncoordinated and disjointed which could lead to undesirable planning outcomes.</p> <p>If growth is lower than anticipated, demand for services should be lower and budgets may be too high.</p>
	<p><b>Growth</b></p> <p>Based on the National Institute for Demographic and Economic Analysis projections for the Waikato region, the district's population is expected to grow from the current 88,113 (2024) to 101,198 (2034). A key assumption is that the settlement pattern for the district and related growth will be as identified in Waikato 2070 and the Future Proof Growth &amp; Development Strategy. The district plan zoning rules determines where growth can occur.</p> <p>Most of the district's growth will occur in and around the existing settlements of Tuakau, Pokeno, Te Kauwhata, Huntly, Ngaruawahia (including Taupiri and</p>	Low	That the projections for population growth and likely location over the next ten years vary significantly from the assumed rates.	<p>Should growth estimates be higher than projected and planned for in certain locations, there may be pressure for the council to provide and maintain additional infrastructure than is currently provided for in this plan. The estimated financial impacts are difficult to quantify however council would adjust its work programmes and/or enter into development agreements to ensure that growth continues to fund growth as much is as practicable.</p>

	Forecasting Assumptions	Level of Uncertainty (Low, Medium or High)	Risk	Possible Impact of Uncertainty
	Horotiu) and Raglan as opposed to the rural areas. Factored into this this thinking are the effects of the growth of Auckland and Hamilton.			
	<p><b>Useful Lives of council assets</b></p> <p>It is assumed that the useful life estimates of our assets and asset values will not change significantly for the duration of this plan.</p> <p>Useful lives are identified for each component of assets. They are assessed based on many factors including construction method, material, age, condition assessments, obsolescence and expected remaining economic potential.</p> <p>Useful lives are regularly reviewed at revaluation and during maintenance. Useful life estimates are used in the calculation of depreciation and forward works programmes.</p>	High	<p>Rising compliance requirements at National and Regional level requires significant investment in new or upgraded plant before useful life or capacity life has been reached.</p> <p>Useful life estimates change as a result of asset revaluations or through adjustments in Asset Management Plans.</p> <p>Renewal programmes do not align with the loss of economic potential of the asset.</p> <p>Funding for renewal programmes does not line up with renewal expenditure. Operating expenses could be under or overstated.</p>	<p>Council operates advanced asset management practices which requires the useful lives of the components assets to be reassessed at each revaluation and during maintenance.</p> <p>Changes to the useful lives of assets has a direct impact on the renewal profiles of assets, for example asset replacements could be delayed. The result of this is an increase in replacement reserves generated from depreciation for a period as this is the funding source for asset replacements.</p> <p>If the useful lives of our assets are inaccurate then:</p> <ul style="list-style-type: none"> <li>• Council may have insufficient funds to undertake renewal works. Council may be able to extend borrowing to complete work which may come at higher cost. Alternatively, services levels may have to reduce until funding is available. This scenario would also likely mean that rates are understated in the years leading up to the renewal.</li> <li>• Council may have allocated excess funding to renewal programmes. This may result in other works not being undertaken at the preferred time resulting in community dissatisfaction. This scenario likely means that rates were higher than they needed to be in the years prior to the planned renewal.</li> </ul>

	<b>Forecasting Assumptions</b>	<b>Level of Uncertainty (Low, Medium or High)</b>	<b>Risk</b>	<b>Possible Impact of Uncertainty</b>
				Accurate assessment of useful lives has a large impact on Council achieving its intergenerational equity principles.
	<p><b>Capital Expenditure</b> The quantum and timing of capital expenditure is achievable.</p>	High	That despite council's long term contractual arrangements with Watercare, that market uncertainties (such as supply chain issues) cause delays in the capital works programme. That due to the cessation of the alliance agreement with Downer, delays may result due to contractor availability and compliance issues.	Should council run into market constraints on the delivery of council work programmes, compliance and/or critical asset related projects would be prioritised, and other work programmes would be adjusted. This would likely reduce the levels of debt, related interest expense and depreciation. Significant budget adjustments would be made via an Annual Plans/LTP amendment and changes consulted on with the community.
	<p><b>Revaluation Movements</b> Provisions for revaluations have been budgeted for every year for infrastructure assets, and every three years for council-owned land and buildings.</p>	Low	The revaluation results in a higher or lower value of assets impacting depreciation costs.	Asset values could increase by more or less than our estimate. This could impact on the level of operating costs for different activities. Large asset valuation changes could impact on council's ability to fund asset renewals
	<p><b>Dividend Income</b> It is assumed that Council Controlled Organisations (CCOs) and Civic Assurance will not generate dividend income during the plan period.</p>	Medium	The profitability targets are not met, and dividends are not received.	The performance of the Council Controlled Organisations can be affected by market conditions and workloads. There is a risk that a series of financial performance targets may or may not be achieved, which could reduce or remove the amount of income the council receives.

	<b>Forecasting Assumptions</b>	<b>Level of Uncertainty (Low, Medium or High)</b>	<b>Risk</b>	<b>Possible Impact of Uncertainty</b>																						
	Not all CCOs are expected to provide a financial return, more information can be found with the financial strategy.			If the income is lower than predicted other work programmes may need to be revised to fund any shortfall. The financial impact is deemed to be low as the amount of dividend income received is minor.																						
	<p><b>Inflation</b></p> <p>The Price Level Adjustors have been provided by Business and Economic Research Limited (BERL), based on work commissioned by the Society of Local Government Managers to specifically assist local government with the presentation of their Long-Term Plans.</p>	Low	Inflation rates vary from those used in calculations of forecasts.	<p>If inflation factors are higher than what we have assumed, then we may not get sufficient income to cover our expenditure at the budgeted levels. Timing of expenditure may need to be altered.</p> <p>If the changes are significant this may impact the levels of service council are able to provide or require rates to increase over and above the predicted levels in subsequent years.</p>																						
	<p><b>Borrowing costs</b></p> <p>The council will be a net borrower over the next ten years and the cost of debt has been budgeted for as follows:</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2025</td> <td>4.25%</td> </tr> <tr> <td>2026</td> <td>4.22%</td> </tr> <tr> <td>2027</td> <td>4.21%</td> </tr> <tr> <td>2028</td> <td>4.26%</td> </tr> <tr> <td>2029</td> <td>4.33%</td> </tr> <tr> <td>2030</td> <td>4.42%</td> </tr> <tr> <td>2031</td> <td>4.46%</td> </tr> <tr> <td>2032</td> <td>4.59%</td> </tr> <tr> <td>20330</td> <td>4.79%</td> </tr> <tr> <td>2034</td> <td>5.05%</td> </tr> </tbody> </table>	Year	Percentage	2025	4.25%	2026	4.22%	2027	4.21%	2028	4.26%	2029	4.33%	2030	4.42%	2031	4.46%	2032	4.59%	20330	4.79%	2034	5.05%	Low	Interest rates vary from those used in calculations of forecasts.	<p>The council's debt portfolio is increasing; movements in interest rates could affect the council's financial position and have an impact on the amount within the council's reserves.</p> <p>These reserves are used to fund capital works and other various programmes and could mean that funds are unavailable to progress works as budgeted.</p> <p>In the event interest rates are lower the council intends to apply the savings to reduce debt or rates in accordance with the council's prudent financial management philosophy.</p>
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	<p><b>Subsidies</b></p> <p><u>Waste Levy</u></p>	Medium	<p><u>Waste Levy</u></p> <p>That the council does not get the predicted</p>	<u>Waste Levy</u>																						

	Forecasting Assumptions	Level of Uncertainty (Low, Medium or High)	Risk	Possible Impact of Uncertainty						
	<p>The council anticipates that the government will continue to provide waste levies using the population-based formula</p> <p><u>Water/Wastewater</u> No subsidies are available.</p> <p><u>NZTA</u> The council anticipates that the government will continue to provide NZTA subsidy for roading and transportation project, and that the overall funding envelope increases each year. NZTA subsidised work categories will not receive unsubsidised funding from council. The basis of NZTA funding for the ten years is assumed to be:</p> <table border="1" data-bbox="315 871 893 1003"> <thead> <tr> <th data-bbox="315 871 459 970">Financial Years</th> <th data-bbox="459 871 685 970">Maintenance, improvements and replacement</th> <th data-bbox="685 871 893 970">NZTA specified Safer Network Programme</th> </tr> </thead> <tbody> <tr> <td data-bbox="315 970 459 1003">2024/34</td> <td data-bbox="459 970 685 1003">51%</td> <td data-bbox="685 970 893 1003">100%</td> </tr> </tbody> </table>	Financial Years	Maintenance, improvements and replacement	NZTA specified Safer Network Programme	2024/34	51%	100%		<p>levels of waste levy income.</p> <p><u>NZTA</u> NZTA subsidy rates differ from the assumed rates. The overall funding envelope for NZTA subsidy remains static or declines.</p>	<p>The council utilises the levy income to fund waste minimisation schemes, educational programmes and other such projects as is the intent of the levy. Should the council not receive the amount of income predicted, expenditure in these areas may need to be reduced. This would not support our zero waste initiatives.</p> <p><u>NZTA</u> Increase or decrease works in line with the One Network Road Classification (ONRC). The annual quantity of planned work would be reduced. Unforeseen and sudden funding required. Increased demand on the network and funding requirements.</p>
Financial Years	Maintenance, improvements and replacement	NZTA specified Safer Network Programme								
2024/34	51%	100%								
	<p><b>Local Government Funding Agency (LGFA) Guarantee</b> Council has assumed that the Local Government Funding Agency guarantee will not be triggered for the duration of this plan.</p>	Low	LGFA cannot meet its obligations to lenders because of a default by a borrowing local authority on interest or principal payments to the LGFA	Based on modelling by the LGFA shareholders, council would be expected to contribute between \$17,000-\$70,000 per annum over the term of their LTP if the guarantee were triggered. Should the guarantee be triggered, the council would reduce work programmes to fund it.						
	<p><b>Levels of Service</b> Changes in customer expectations regarding service levels will not alter significantly.</p>	Medium	There are significant changes in customer expectations regarding levels of service.	If through customer demand, levels of service are significantly altered, this could impact on operating and capital budgets and the resulting rates.						



	<b>Forecasting Assumptions</b>	<b>Level of Uncertainty (Low, Medium or High)</b>	<b>Risk</b>	<b>Possible Impact of Uncertainty</b>
	<p><b>Natural Disaster/Emergency Events</b></p> <p>In the event of a natural disaster the council would have to fund 40% of the costs associated with damage to council assets. The remaining 60% is assumed to be provided by the Government.</p> <p>Council's insurance of underground assets covers losses or unforeseen damage caused by earthquake, natural landslip. Flood. Tsunami, tornado, windstorm, volcanic eruption, hydrothermal and geothermal activity, or subterranean fire.</p>	Low	That there will be a natural disaster requiring emergency works that cannot be funded out of normal budgetary provisions. That the government will not provide any financial assistance.	The potential effect of a natural disaster on the council's financial position is dependent upon the scale, duration and location of the event.
	<p><b>Ownership of a significant asset</b></p> <p>It is assumed throughout this plan that council will retain ownership of its significant assets and continue with the current CCOs. There is no opportunity to change the current CCOs.</p>	High	That the specified returns whether financial or non-financial of holding strategic assets/ CCOs are not forthcoming	Should specified returns not be attainable, council would review its investment. Such a review may have a financial impact as it would be prudent for it to be undertaken by an independent entity. The outcome of a review may recommend that the council continues to hold, partially divest or sell in entirety its interest.
	<p><b>State Highway Revocation</b></p> <p>It is assumed in this plan that we will receive the Huntly section of SH1 to manage and maintain. The date and terms of the transfer are not yet finalised.</p> <p>This is due to the moving of the state highway to the new expressway, connecting Taupiri to Tamahere.</p> <p>We have assumed that these inherited roads will be at an acceptable standard and will attract NZTA subsidy going forward for maintenance</p>	Low	The timing and costs/values of assets associated with the revocation of state highways are different to that reflected in this plan.	The impact of not receiving funds for upgrades could mean that the cost for maintenance on those sections of road lies with Council. This may require additional loans to be raised to complete any essential works which would have an impact on the amount of rates needed to cover repayments in the future. Rather than choosing to raise loans, council might defer replacement/renewal works on other local roads. This could require further rating income to carry out operational works to extend the life of those assets.

	Forecasting Assumptions	Level of Uncertainty (Low, Medium or High)	Risk	Possible Impact of Uncertainty		
	<p><b>Resource Consents</b></p> <p><u>Water Supply</u> Within the next 10 years only one water supply consent will expire, and any renewal is not expected to have significant issues. Waters reform may impact future consent conditions.</p> <p><u>Wastewater</u> Within the next 10 years Raglan, Te Kauwhata, Ngaruawahia and Huntly wastewater discharge consents will expire. More stringent environmental outcomes and cultural considerations are expected to be required. Any form of disposal to the harbour or ocean and to Lake Waikare are not acceptable to some community groups. Finding suitable land for land-based disposal is challenging and very costly and have not been included in the forecasts. Newer treatment technology comes with higher technical skill requirements and increased operating costs. Waters reform may impact future consent conditions.</p>	High	<p>Conditions of resource consents are altered significantly and without sufficient warning. Any new resource consents required are not approved or conditions imposed are not allowed for.</p>	<p>If the council is faced with significant changes to resource consent conditions, this could have a significant impact on the council's financial resources. If consent conditions change, the timing of the consent process may need to be extended, particularly if upgrade works are required to comply. No allowance has been made for pending changes under the three waters reform.</p>		
	<p><b>Water Availability</b></p> <p>Water availability has been identified as a risk to specific individual schemes within the next 10 years; Council has identified strategies to mitigate/address these risks and accommodate the forecasted demands. It is assumed that Council or third-party suppliers who supply bulk water to Council will be able to alter existing consents and allocations to meet forecasted demands.</p>	Medium	<p>Changes to allocations are not approved</p>	<p>If Council or its third-party suppliers are unable to alter existing consents and allocations, this could have a significant impact on Council's ability to accommodate growth in specific areas of the district.</p>		
	<p><b>Projected number of rating units as at 30 June:</b></p> <table border="1"> <tr> <td>Current</td> <td>33,197</td> </tr> </table>	Current	33,197	Medium	<p>The number of new rating units does not</p>	<p>Rating and development contribution income could be under or overstated. If this were to occur, both capital</p>
Current	33,197					

	Forecasting Assumptions		Level of Uncertainty (Low, Medium or High)	Risk	Possible Impact of Uncertainty
	2025	33,453		meet or exceeds expectations.	and operational expenditure would be adjusted to reflect actual demand.  If projects have been progressed ahead of development which does not eventuate this could cause funding shortfalls. This in turn would raise the costs of development and/or increase the borrowing costs for existing ratepayers.
	2026	33,854			
	2027	34,261			
	2028	34,671			
	2029	35,088			
	2030	35,509			
	2031	35,935			
	2032	36,366			
	2033	36,803			
	2034	37,244			
	<p><b>Sources of funding for future replacement of significant assets</b> Sources of funding for the replacement of assets can be found in the council's Revenue and Finance Policy.</p> <p>NZTA subsidy will continue to be available at the currently agreed percentage (see NZTA subsidy assumption).</p> <p>Ministry of Health (MoH) subsidies are not available for Wastewater (see Water and Wastewater assumptions).</p> <p>The bank will continue to cover loan facilities to the council. External borrowing limits are covered within the Treasury Risk Management Policy.</p>		Medium	Sources of funds are inadequate to fund the replacement of significant assets	If funds are inadequate for the replacement of significant assets, work may not be progressed as per timing in the plan. Operational expenditure may rise as a result in an attempt to extend the life of the assets, which would potentially cost the ratepayer more as we would still need to build reserves to pay for the eventual replacement.
	<p><b>Renewal of External Funding</b> The council is able to retain all external funding even if projects are delayed.</p>		Low	A project may be delayed, which would put the external funding at risk.	Some projects may not proceed if external funding is not available.