

Forecasting assumptions

All assumptions have medium or low uncertainty unless otherwise specified. The significant lives of assets can be found in the Accounting Policies ~~on page XX~~ and the sources of funding for future expenditure can be found in the Revenue and Financing Policy ~~on page XX~~.

Assumptions are also included in the Infrastructure Strategy and Development Contributions Policy. Although the assumptions in these documents are specific to that document they are consistent with the forecasting assumptions used as the basis for the ~~draft~~ Long-term Plan (LTP).

Our assumptions are:

- Population growth across our District is expected to reflect the population projections provided by ~~the National Institute of Demographic and Economic Analysis (NIDEA), The University of Waikato Statistics New Zealand~~.
- Limited structural change to population for years 1-3, increased aging structure by 2028~~5~~ and until 2048~~5~~. An aging population will put added pressures on specific services.
- 40-45% of the District's properties will be owned by non-resident ratepayers (mainly holiday home owners, but also others). As at ~~June-Dec 2016~~ 43~~2~~% of the District's properties are owned by non-resident ratepayers.
- ~~Approximately 30% of the District's properties will be holiday homes.~~
- Our expectation is that the wider economy will remain stable. There will be economic influences that will impact on Council's business that are out of Council's control.
- The ~~subsidy funding assistance rate (FAR)~~ from New Zealand Transport Agency ~~will move from 43% to a base subsidy of 50% across all activities and be increased by 1% to 51% for year two and the subsequent years. These subsidy rates will remain at 51% this level until the Funding Assistance Rate is reviewed. The FAR for the special purpose road (Huka Falls Road) will continue to be 100% reducing to 51% in the fourth year of the LTP.~~
- Growth in the number of rateable properties is ~~defined set out~~ in Council's Growth model 201~~87~~ ~~and is based on information contained in the Demographic Snapshot 2016/17~~. (For expected growth numbers see the *Prospective Schedule of Rates*, page XX).
- Long term inflation is consistent with BERL's Local Government Cost Index (LGCI) forecasts (updated in ~~September-October 2014~~ 2017). ~~If inflation rates were to rise faster than forecast it is expected that Council rate increases would also need to increase to maintain the current levels of service.~~
- Climate change impacts will not be significant between 201~~85~~-2~~85~~. As part of our Infrastructure Strategy we have noted that we will review data on an ongoing basis to see what changes may need to be incorporated for the period 202~~85~~-204~~85~~.
- Waikato Regional Council will continue to push for higher wastewater quality via consent conditions, with consequential impacts on infrastructure capital and operating costs

Commented [AK1]: Neil – can you please add a comment here regarding the impact on rates if inflation increase (as discussed with Audit)

- There are no substantial natural disasters within the District. Council has not made financial provision to remedy the consequences of a significant natural disaster. The level of certainty for this assumption is unknown. A major natural disaster will be expensive.
- That no re-organisation of local government which affects the Taupo District Council in the first three years of the ~~draft~~ LTP
- Legislative change is anticipated over the next ten years. Where direction has been provided by Central Government this has been taken into consideration. If unknown the status quo has provided the baseline for decisions.

Finance

The main financial assumptions that underpin this ~~long term~~long-term plan relate to:

- Asset revaluations
- Financial ratios
- Income from the sale of Council owned land
- Income from the harvest of Council's forests
- Development contributions income
- Investment returns
- Interest rates on borrowings
- Expenditure and timing of capital projects
- Timing and amounts of loans raised
- Inflation adjustments

Should any of these assumptions prove substantially incorrect there is likely to be an impact on the ~~draft~~ LTP. The methodology used to determine possible effects is:

- Identify the area of interest i.e. income from sale of Council property
- Identify the key variables i.e. the sale price achieved
- Determine how each key variable could change and the possible effect or effects of a change upon the ~~draft~~ LTP i.e. some capital expenditure projects may be deferred.

The degree of impact to the ~~draft~~ LTP is outlined below.

1. Asset revaluations

Critical variable = Inflation rate

The asset revaluation amounts are based on the cumulative inflation tables provided by BERL (see ~~xx page xx~~below). The effect of a change in the actual rate of inflation will mean a higher/lower asset value and a higher/lower depreciation charge.

Asset revaluation cycles will in practice differ for each class of asset. The projections of this ~~draft~~ LTP assume a three yearly staggered revaluation cycle of asset classes.

2. Financial ratios

The financial ratios set by Council in accordance with the *Treasury Management Policy* allow for the following projected borrowing requirements:

Ratio	Limit
% Net external debt / Total revenue	Must not exceed 25 <u>0</u> 0%

%-Net interest <u>on external debt</u> expense / Total revenue	Must not exceed 20%
%-Net interest <u>on external debt</u> expense / Annual rates revenue	Must not exceed 30 25%
%-Liquidity (<u>External term debt + committed bank facilities + liquid investments</u>) / Total external debt	Must be greater than 110%

3. Income from the sale of Council property

Critical variable = Net sale proceeds and infrastructure costs

Year	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Forecast Net Forestry Sales	3,994	684	2,287	173	1,745	198	366	1,667	1,454	362

If estimated net sales proceeds are not achieved, or infrastructure costs are incurred at a higher level than planned, then the net cash flow will be reduced. Failure to achieve the projected number of property sales per year will also impact negatively on projected cash flows.

The consequences of changes as noted above could be the deferral of some capital expenditure projects so that expenditure would be reduced to match the reduced levels of income or an increase in borrowing where it is important that significant projects proceed.

4. Income from the harvest of Council's forests

Critical variable = Net sale proceeds

Year	18/19	19/20	20/21	21/22	22/23	23/24	24/25	2225/	236/2	274/2
	15/16	16/17	17/18	18/19	19/20	20/21	21/22	2326	74	85
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Forecast Net Forestry Sales	5651,964	1,639,2,010	1,757,0	2,330	0	0,1,215	0	0	0	0

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If the estimated net sales proceeds are not achieved then the net cash flow will be reduced. The above estimates are subject to market risk with regard to log prices and are influenced by foreign exchange fluctuations and worldwide demand for logs, particularly from China. Consequences of changes as noted above could be the deferral of some capital expenditure projects so that expenditure would be reduced to match the reduced levels of income or an increase in borrowing where it is important that significant projects proceed.

5. Development contributions income

Critical variable = the assumed rate of growth

It is probable that the demand for new sections in Taupo District will continue over time. Internationally there is demand for properties with coastal and water access, although how this will be affected by aging populations is not yet clear.

If growth is less than projected Council will still need to increase its borrowing, extend the period for interest payments and introduce depreciation on the assets without the corresponding increase in the rating base to help meet the additional costs. A corresponding rate increase may then be required to meet the funding shortfall.

6. Investment returns

Critical variable = the return on investments

The ~~draft~~ LTP assumes that income will be generated from all Council investment assets. Council seeks to achieve growth in parts of its investment portfolio e.g. TEL fund, but such growth ~~has been~~ is dependent upon Council funding requirements. ~~From July 2020~~ From July 2020 it is intended that the TEL Fund will no longer subsidise operational Council funding requirements and the fund will continue to grow. Other investments, such as forestry deliver returns in lump sums at time of harvest. The assumed interest rate on cash investments ranges from ~~3.38-4.0%~~ to ~~4.527-5.5%~~ over the 10 years.

The consequence of a reduction in investment income could mean that less income is available to offset rates, or to repay borrowings. This may mean that some capital projects are deferred or borrowing increased where it is important that significant projects proceed.

7. Interest rate on borrowings

Critical variable = the interest rate on borrowed funds is assumed to be between ~~4.416-4.5%~~ and ~~5.926-5.9%~~ per annum.

Currently Council's borrowing is sourced from a combination of bank financing, commercial paper issuance and ~~debentures~~ issuance through the Local Government Funding Agency with the majority of this overlaid by fixed interest rate swaps. These swaps extend out to maturities ranging between ~~204720~~ and ~~202429~~. The relevant interest rates fixed under the swaps range from ~~4.055-6.2%~~ to ~~6.3716%~~. The weighted average cost of Council's borrowing at 30 June 20147 was ~~5.886-0.9%~~.

An increase in the borrowing rate above the planned rates could result in a delay in the start up date of some projects in order to keep overall costs contained within the annual budgets.

8. Expenditure on capital projects and debt levels

The ~~draft LTP~~ capital expenditure budgets have been set bearing in mind the financial covenants of Council's *Treasury Management* policy. In setting the final programme of capital expenditure, asset maintenance and asset renewal projects were given the highest level of priority so that Council can continue to maintain its existing levels of service. Projects in response to statutory requirements have been given the next highest level of priority.

~~Other projects have been either delayed or deferred where possible.~~

9. Asset management plans – timing of expenditure

The assumptions in Council’s Asset Management Plans are the basis for the timing of asset-related expenditure, mainly for infrastructure. This includes any amendments following consultation ~~on the draft LTP~~. Asset Management Plans and their assumptions are available separately at www.taupo.govt.nz.

10. Inflation adjustment

The figures in all the financial reports have been adjusted to include inflation-adjustment expectations for the relevant year of the ~~draft~~ LTP. These inflation adjusters have been provided by BERL and have been endorsed for use by the Society of Local Government Managers. The table below details the inflation adjusters for each category of cost.

Forecast of Price Level Change Adjusters - Cumulative Inflation Table (%)

Year to	Roading/ Transport Planning and regulation	Property /Reserves & Parks Roading	Water Transport	Other Community activities	Water and environment
Jun-16	0	0	0	0	
Jun-17	1.4	2.5	4.2	2.6	
Jun-18	3.7	5.2	7.6	5.3	
Jun-19	0.06.2	0.08.1	0.011.4	0.08.3	0.0
Jun-20	2.18.9	2.241.2	2.045.4	2.044.5	2.5
Jun-21	4.241.9	4.414.5	4.149.8	4.144.9	4.9
Jun-22	6.445.4	6.948.4	6.424.6	6.348.7	7.4
Jun-23	8.848.6	9.422.0	8.829.8	8.722.7	10.0
Jun-24	11.322.4	12.026.4	11.335.3	11.227.4	12.7
Jun-25	13.826.4	14.830.6	13.941.4	13.734.8	15.6
Jun-26	16.6	17.8	16.8	16.5	18.6
Jun-27	19.4	21.0	19.7	19.2	21.8
Jun-28	22.3	24.4	22.9	22.3	25.3

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