Kāpiti Coast District Council

Draft long term plan 2018-38

Consultation - supporting information

Significant forecasting assumptions

Significant forecasting assumptions

Schedule 10 of the Local Government Act 2002 requires that we identify the significant forecasting assumptions and risks used in setting our long term plan. Where there is a high level of uncertainty the Council is required to state the reason for the uncertainty, and provide an estimate of the potential effects on the financial assumptions.

The assumptions that underlie the financial forecasts in the 2018-38 long term plan are set out in the tables on the following pages. There are no significant changes to the assumptions used for the long term plan.

Key assumptions and risks

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effects of uncertainty
Population growth The assumption is based on population growth forecasts prepared by demographic specialists .id. in the long term plan over the 20 year period to 2038. The .id. forecasts sit between the medium and high projections pf Statistics New Zealand.	In each area, population growth across the district occurs at a higher or lower rate than assumed.	Low (shorter term) Medium (up to 10 years) High (beyond 10 years)	Any significant increase in population growth above projections will place greater demands on some council services and facilities (such as wastewater, water, stormwater, roading, libraries, community facilities etc.) and raise expected operating expenditure The financial implications for the Council should be limited and able to be managed in the short term but may need longer term responses.

Projected 2013 to 2043 usually resident in New Zealand population by area unit of usual residence

Census area units	2013	2018	2023	2028	2033	2038	2043	Change 2013-43
Ōtaki (including Ōtaki Beach)	6,011	6,273	6,604	6,895	7,070	7,244	7,405	1,394
Ōtaki Forks – Kaitawa – Te Horo	3,708	3,870	3,971	4,040	4,151	4,242	4,352	644
Waikanae Beach – Peka Peka	3,573	3,652	3,807	3,952	4,139	4,346	4,521	948
Waikanae Park	1,926	1,932	2,172	2,572	3,133	3,703	4,368	2,442
Waikanae – Reikorangi	6,124	6,881	7,227	7,693	8,105	8,436	8,927	2,803
Paraparaumu Beach North - Otaihanga	4,919	5,146	5,326	5,469	5,646	5,774	5,884	965
Paraparaumu Beach South	5,050	5,145	5,140	5,147	5,136	5,132	5,142	92
Paraparaumu Central	2,796	2,855	2,987	3,142	3,305	3,436	3,521	725
Paraparaumu East	2,278	2,290	2,379	2,482	2,624	2,772	2,864	586
Paraparaumu North	3,851	4,244	4,654	4,823	4,959	5,127	5,271	1,420
Raumati Beach	5,042	5,208	5,274	5,252	5,323	5,463	5,642	600
Raumati South	3,702	3,636	3,579	3,655	3,919	4,107	4,299	597
Paekākāriki	1,720	1,630	1,532	1,481	1,470	1,472	1,490	(230)
Kāpiti Coast district	**50,700**	**52,762**	**54,652**	**56,603**	**58,980**	**61,254**	**63,686**	**12,986**

Source: Population and household forecasts from, 2013 to 2043, prepared by demographic specialists .id., in February 2017.

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effect of uncertainty
Growth in households Based on current demographic analysis, the number of households is expected to increase from 21,428 in 2013 to 27,409 in 2043, an increase of 5,981 households (27.9%)	Household growth is less or greater than projected	Low (short term) Medium (up to 10 years) High (beyond 10 years)	Infrastructure required for growth is budgeted to be funded from development contributions. If development is lower than planned, there would be fewer requirements for infrastructure for growth and the timing could change. Any additional capital costs above the development contributions would be funded from new debt.

Projected 2013 to 2043 occupied private households by area unit

Census area unit	2013	2018	2023	2028	2033	2038	2043	Change 2013-43
Ōtaki (including Ōtaki Beach)	2,615	2,738	2,884	2,987	3,067	3,132	3,205	590
Ōtaki Forks – Kaitawa – Te Horo	1,516	1,600	1,671	1,743	1,797	1,847	1,898	382
Waikanae Beach – Peka Peka	1,520	1,584	1,671	1,751	1,837	1,908	1,980	460
Waikanae Park	888	906	1,026	1,212	1,440	1,669	1,937	1,049
Waikanae – Reikorangi	2,837	3,080	3,242	3,444	3,607	3,740	3,951	1,114
Paraparaumu Beach North - Otaihanga	1,924	2,004	2,076	2,133	2,206	2,262	2,314	390
Paraparaumu Beach South	2,155	2,197	2,230	2,268	2,293	2,310	2,326	171
Paraparaumu Central	1,276	1,304	1,345	1,397	1,450	1,497	1,530	254
Paraparaumu East	842	871	890	918	970	1,026	1,061	219
Paraparaumu North	1,602	1,767	1,897	1,956	2,022	2,088	2,150	548
Raumati Beach	2,100	2,181	2,230	2,277	2,336	2,402	2,473	373
Raumati South	1,439	1,444	1,464	1,524	1,612	1,696	1,781	342
Paekākāriki	715	730	746	762	778	792	805	90
Kāpiti Coast district	**21,429**	**22,406**	**23,372**	**24,372**	**25,415**	**26,369**	**27,411**	**5,982**

Source: Population and household forecasts from 2013 to 2043, prepared by demographic specialists .id, in February 2017

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effect of uncertainty
Increase in rating base			
The rating base is projected to increase by 0.71% in 2018/19 From 2018 to 2038 the growth in the rating base is estimated to be an average of 0.73% per year.	Rating unit growth occurs at higher or lower rates than assumed in the district	Low	Economic conditions and the discretionary nature of the housing market can cause variations in rating unit growth from that assumed The main financial effect of slower than projected growth can be a reduction in budgeted development contributions and rates revenue The financial effect of lower than projected growth could result in marginally higher rate increases. The Council considers that it has been conservative in its estimated growth in the rating base so that the risks are relatively low
Interest rates			
In preparing the annual plan, the Council has assumed long-term interest rates for new debt of 4.8%	The prevailing interest rates will differ significantly from those estimated	Low short term Medium long term	Increases in interest rates flow through to higher debt servicing costs and higher rates funding requirements The Council has mitigated interest risk using interest rate swaps and is governed by a robust Treasury Management Policy that prescribes best practice interest risk and debt concentration risk covenants

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effects of uncertainty
Levels of service			
This long term plan does not include any significant changes to its activity service levels.	The prevailing service levels will differ significantly from those estimated.	Low	Community outcomes could increase levels of service thereby increasing both debt and rates funding beyond the quantified limits.
Inflation impact on expenditure budget			
The Council has indexed all operating and capital costs to reflect monetary changes over the life of the long term plan. Price changes have been indexed using the price adjustors as revised by BERL Economics in September 2017 (see table next page).	Actual inflation exceeds budgeted inflation.	Low (short term) Medium (up to 10 years) High (10 years to 20 years)	If the Reserve Bank continues to keep general inflation low the projected impacts of changes to pricing levels could be relatively minor but if inflation increases beyond the projected levels the accumulative impact of higher inflation could have a major long-term impact on the rates requirement.

Price adjustors: annual percentage change from September 2017

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Yearly	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Roading	**2.00%**	2.20%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%
Planning and regulation	**2.00%**	2.10%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%
Transport	**2.00%**	2.00%	2.10%	2.20%	2.20%	2.30%	2.40%	2.50%	2.50%	2.70%
Energy	**2.40%**	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.36%	2.42%
Staff	**2.50%**	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.60%	2.20%	2.23%
Local government cost index	**2.00%**	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%
Water and environmental management	**2.30%**	2.50%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%
Community activities	**1.70%**	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.60%
Insurance	**2.30%**	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.34%	2.38%

Source: BERL Economics, September2017

	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38
Yearly	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
Roading	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Planning and regulation	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Transport	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%
Energy	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%	2.42%
Staff	2.23%	2.23%	2.23%	2.23%	2.23%	2.23%	2.23%	2.23%	2.23%	2.23%
Local government cost index	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%
Water and environmental management	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
Community activities	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Insurance	2.38%	2.38%	2.38%	2.38%	2.38%	2.38%	2.38%	2.38%	2.38%	2.38%

Source: BERL Economics, the year 10 rate is assumed for years 11 to 20, September2017

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effects of uncertainty
Loans			
New loans will be taken out for a maximum period of 20 years except for those projects that have an average asset life of 40 years or more	Loans are unable to be repaid in the planned maximum loan periods	Low	The Council plans to fully fund depreciation by year five and further rates fund accelerated debt repayment from year five
Local Government Funding Agency (LGFA) guarantee			
Each of the shareholders of the LGFA is a party to a Deed of Guarantee, whereby the parties to the deed guarantee the obligations of the LGFA and the guarantee obligations of other participating local authorities to the LGFA, in the event of default	In the event of a default by the LGFA, each guarantor is liable to pay a proportion of the amount owing. The proportion to be paid by each respective guarantor is set in relation to each guarantor's rating base	Low	The Council believes the risk of the guarantee being called on and any financial loss arising from the guarantee is low. The likelihood of a local authority borrower defaulting is extremely low and all the borrowings by a local authority from the LGFA are secured by a rates charge
Renewal of external funding			
It is assumed that council will be able to refinance existing loans on similar terms	The new borrowings cannot be accessed to fund future capital requirements	Low	The Council minimises its liquidity risk by having sufficient credit facilities in place to cover any shorter-term borrowing requirements. The Council's current strategy is to maintain a $20 million credit facility for the next 20 years, with the option to review for most cost-effective solution
Local Government Funding Agency			
The Council remains a shareholder and borrows direct from the LGFA that was developed to source lower-cost funding	LGFA rating falls or lower cost funding will not be achieved	Low	As a non-shareholder of the LGFA, the lending margins would be higher which would affect the proposed rating levels
NZ Transport Agency (NZTA)			
The Council has projected a subsidy rate of: 50% in 2018/19, increasing to 51% in 2019/20	Changes in the subsidy rate and variations in criteria for inclusion in the qualifying programme of works	Low	If the level of subsidy decreases there needs to be either a reduction in the roading work programme or an increase in funding from alternative source (e.g. rates)

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effects of uncertainty
Sources of funds for the future replacement of significant assets			
Sources of funds for operating and capital expenditure are as per the Revenue and Financing Policy	Sources of funds are not achieved or are not accessible	Low	Funding of all asset replacements during the life of the 20-year plan has been disclosed. The primary funding for asset replacements is depreciation (funded through rates) and loans. The Council is able to access loans at levels forecast within the long term plan
Useful lives of significant assets			
The useful lives of significant assets with the appropriate depreciation rates are shown in the Significant Accounting Policies It is assumed that the useful lives will remain the same throughout the 20-year period	Assets need to be replaced earlier or later than budgeted	Low – Asset lives are based upon the *National Asset Management Manual* guidelines and have been assessed by independent qualified valuers and engineers	The financial effects of the uncertainty are relatively low. If capital expenditure was required earlier than anticipated, then depreciation and debt servicing costs could increase If assets need replacing earlier, this could lead to the Council reprioritising capital projects to mitigate the financial impacts
It is assumed that assets will be replaced at the end of their useful lives	The Council activities change, resulting in decisions not to replace existing assets	Low	The Council has a comprehensive asset management planning process. Where a decision is made not to replace an asset, this will be factored into capital projections
Planned asset acquisitions (as per the capital expenditure programme) shall be depreciated on the same basis as existing assets.	More detailed analysis of planned capital projects may alter the useful life and therefore the depreciation expense	Low	Asset capacity and condition is monitored, with replacement works being planned accordingly. Depreciation is calculated in accordance with accounting and asset management requirements
Revaluation of property, plant and equipment			

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effects of uncertainty
The Council is planning to complete annual revaluations of certain asset classes, as per a rolling programme where: • roads, including land under roads is revalued two-yearly; • three waters (water, wastewater and stormwater) are revalued two-yearly (alternate years to roading); • land and property are revalued three-yearly. The following assumptions have been applied to all projected asset revaluations: • revaluation movements shall equate to the inflation rates applied for all depreciable property, plant and equipment (refer 'Inflation' section); • the depreciation impact of the revaluation shall take effect in the following year; and • for non-depreciable assets council land including land under roads is forecast to increase by projected inflation rates.	That actual revaluation movements will be significantly different from those forecast	Low (short term) Moderate to high (long-term)	Most of the Council's depreciable property, plant and equipment assets are valued on an optimised depreciated replacement cost basis. Therefore, using the projected local government inflation rate as a proxy for revaluation movements is appropriate and consistent with the treatment of price changes generally within the long term plan.
Revaluation of other assets			
It is assumed that the value of all other assets (e.g. investment properties) accounted for at fair/market value will remain constant across the 20-year plan.	The actual revaluation movements will be significantly different from those forecasts.	Moderate	For assets valued at market value (based on sales evidence), values have been assumed to remain constant. This reflects the wide disparity in views on the sustainability of current residential market prices. This assumption has no impact on depreciation as these assets are not depreciated.
Resource consent standards			

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effects of uncertainty
Resource consent standards for water sources and for stormwater and wastewater discharges from council infrastructure will be monitored at the present high levels set. Council will continue to monitor and manage resource consents for the River Recharge with Groundwater project to the same high standard that has seen us achieve four star ratings in both the last two years from Greater Wellington Regional Council. .	Resource consent conditions will alter, and significantly increased standards will lead to higher costs. Consents are delayed through appeals to the Environment Court. All councils can to renew existing resource consent upon expiry.	Low	Treatment costs higher than the current standards could lead to higher operating and maintenance costs Appeals to the Environment Court could result in higher legal costs and delays in consents The Council was fully compliant with its existing resource consents and does not contemplate major variances in the current requirements in the first 10 years. Over the longer term there is a greater risk of conditions changing.
Development contributions			
Significant assumptions in relation to development contributions are included within the Development Contributions Policy.	If growth is higher or lower than forecast, the level of development contributions collected could be insufficient to cover the costs of the additional infrastructure required to meet the needs of Kāpiti's future population.	Low	The growth assumptions within the Development Contributions Policy are considered robust as they are based on the .id. modelling on population assumptions used across the long term plan.
Leaky homes liability	The level of the claims and		The Council's exposure to leaky home claims is much lower

Forecasting assumptions	Risk	Level of uncertainty	Reasons and financial effects of uncertainty
While the 2005 changes to the Building Act 2004 have led to a reduction of weather-tight claims against the Council, a provision for claims against the Council is still required	settlements is higher than provided for within the long term plan.	Low	than some other councils' provisions for projected exposure, which have been made from contingency funds
Wellington Regional Strategy			
Following a review of the Wellington Regional Strategy focus areas, it is assumed that the strategy will continue to be implemented for the next 20 years, subject to public approval of the proposal	The Wellington Regional Strategy is discontinued	Low	Kāpiti Coast District Council is part of the governance of the Wellington Regional Strategy and must agree to any outcomes
Government policy			
It is assumed that the central government policy framework will continue to provide a stable working and statutory framework for local government	Government policy amendments may result in new legislation that results in significant resource and financial implications	Medium to high	There is a tradition of central government imposing costs and responsibility on local government without associated funding (e.g. gambling law reform, prostitution law reform, building compliance and building legislation). In recent years there has been new legislation (the Food Act 2014 and the Building (Pools) Amendment Act 2016) and amendments to the Building Act 2004 in regard to Earthquake-Prone Buildings and changes to the basis for accreditation as a building consent authority. These changes have added significant additional responsibilities, training requirements and regulatory processes for the Council
The Regional Amenities Fund			
It is assumed that this initiative continues to be supported across the region and that the Council will allocate funding towards the Regional Amenities Fund	Not all councils continue to participate in the Regional Amenities Fund	Low	At a certain funding level the Regional Amenities Fund will become less viable as there will be insufficient funding to justify its continuation