



Significant Planning Assumptions

Supporting Document for LTP 2018-28



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

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SIGNIFICANT PLANNING ASSUMPTIONS

In order to plan for the long term it is imperative to make assumptions about various aspects in the future. The significant assumptions made about the future form an important part of the planning framework.

Schedule 10 of the Local Government Act 2002 requires that the Council identifies the significant forecasting assumptions and risks underlying the financial information set out in the LTP. Where there is a high level of uncertainty the Council is required to state the reason for that level of uncertainty and provide an estimate of the potential effects on the financial assumptions. The level of uncertainty is determined by reference to both the likelihood of occurrence and the financial materiality.

The significant planning assumptions are listed below.

1. INFLATION

Assumption	Inflation rates are based on the Local Government Cost Index (LGCI) forecasts from BERL (Forecasts of Price Level Change Adjustors – 2017 Update). The following rates are applied to operating expenditure, capital expenditure and revenue.									
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Annual Cost Adjustors									
	LGCI Operating	2.2	2.2	2.2	2.3	2.3	2.4	2.5	2.5	2.6
	LGCI Capital	2.2	2.2	2.2	2.3	2.4	2.4	2.5	2.6	2.7
	The inflation rates applied to financial projections for periods beyond 2027/28 are those projected for 2027/28 (2.6% operating and 2.7% capital).									
	These factors are not applied to loan interest costs.									
Risk	Actual inflation rates will vary from these forecasts.									
Level of Uncertainty	Moderate									
Impact on Integrity of LTP	Moderate: Incorrect adjustor forecasts could result in Council over or underfunding operational and capital costs. Preparing an annual budget and resetting rates combined with a triennial review of the LTP mitigates this risk and effect.									

2. POPULATION GROWTH

Assumption	Projected total City population growth over the ten years of the LTP is 3,750 (5.98%). The projections are halfway between Medium and High Statistics NZ projections.	Year (ending 30 June)	Total Napier City	Annual Growth Rate		
Risk	The actual population growth and its composition could differ.	2018	62,700			
Level of Uncertainty	Moderate	2019 (year 1 of LTP)	63,100	0.64%		
Impact on Integrity of LTP	<p>Low: Variations in growth of population will impact the growth of households and the demand for community facilities over time. Changes may require acceleration or slow-down of growth related projects. Council's Financial Strategy outlines how such projects are to be funded. Impacts on individual ratepayers will not be significant unless growth is significantly above that forecast.</p> <p>Any impacts from the changing demographics of Napier's population during the term of this LTP is not considered significant.</p>	2020	63,500	0.63%		
		2021	63,900	0.63%		
		2022	64,300	0.63%		
		2023	64,700	0.62%		
		2024	65,050	0.54%		
		2025	65,400	0.54%		
		2026	65,750	0.54%		
		2027	66,100	0.53%		
		2028	66,450	0.53%		
		Projections for years 11 to 30				
		2033	67,950	0.45%		
2038	69,050	0.32%				
2043	70,000	0.27%				
2048	70,900	0.26%				

3. HOUSEHOLD GROWTH

Assumption	The projected total City household growth over the next ten years is 1,800 (7.03%) The projections are halfway between Medium and High Statistics NZ projections.
Risk	Actual physical growth could differ.
Level of Uncertainty	Moderate
Impact on Integrity of LTP	Moderate: The rate of growth will impact the revenue from Development Levies/ Financial Contributions and Consents. Council will carefully monitor growth and adjust the timing of growth related projects based on revised market demand and revenue timing. The financial implications are largely mitigated by Council's policies for the funding of growth.

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

3. HOUSEHOLD GROWTH continues

Year (ending 30 June)	Total household numbers	Development Split			
		Infill	Greenfield	Rural	
2018	25,600	20,095	4,670	835	Napier City Council is a participant of the Heretaunga Plains Urban development Strategy (HPUDS) which has shaped its approach to managing urban growth since the adoption of this regional strategy by the Council in 2010 (updated 2017)
2019 (year 1 of LTP)	25,790	20,177	4,773	841	
2020	25,980	20,258	4,875	846	
2021	26,170	20,340	4,978	852	In the move towards more compact urban form for the Heretaunga Plains sub-region, an increasing proportion of the residential growth has been identified to take place through intensification, by redevelopment within existing residential and rural residential areas, HPUDS indicates that development is expected to transition from current development allocation levels with more intensification going forward however Napier City Council expects the current mix to remain based on the existing levels of intensification and availability of land for intensification purposes.
2022	26,360	20,422	5,080	858	
2023	26,550	20,504	5,183	864	
2024	26,720	20,577	5,275	869	
2025	26,890	20,650	5,367	874	
2026	27,060	20,723	5,458	879	
2027	27,230	20,796	5,550	884	
2028	27,400	20,869	5,642	889	
Projections for years 11 to 30					
2033	28,150	21,192	6,047	912	
2038	28,600	21,385	6,290	925	
2043	29,200	21,643	6,614	943	
2048	29,550	21,794	6,803	954	

Development Type	Napier City	HPUDS – regional target split by 2045
Intensification (infill an brownfields)	47%	60%
Greenfield	54%	35%
Rural	3%	5%

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

4. GROWTH IN RATING BASE

Assumption	Growth in the rating base (number of properties from which council collects rates) is driven by growth in the number of households and industrial\commercial expansion. Based on historic data and the growth assumptions in this LTP an allowance of 0.30% per annum has been included for additional rates revenue as a result of growth in the rating base. This represents a conservative estimate relative to the potential income from the projected increase in households.	Year ending	Rating Units
		30 June	
Risk	Actual growth in the rating base could differ.	2018	25,792
		2019	25,972
Level of Uncertainty	Moderate	2020	26,162
		2021	26,352
Impact on Integrity of LTP	Low: The rate of growth will impact on the average rates increase for existing ratepayers.	2022	26,542
		2023	26,732
		2024	26,922
		2025	27,092
		2026	27,262
		2027	27,432
		2028	27,602
		2029	27,772

5. RESOURCE CONSENTS

Assumption	Conditions for existing resource consents held by Council will not be significantly altered. Any resource consents due for renewal during the 10 year period will be renewed accordingly.
Risk	Conditions of Resource Consents may be altered significantly and Council is unable to renew existing resource consents upon expiry.
Level of Uncertainty	Low
Impact on Integrity of LTP	Moderate: Material changes to resource consent conditions can result in a need for upgrade to assets and changes to the manner in which they are operated. Constant monitoring of the regulatory environment, performance against existing conditions and a good relationship with the Hawke's Bay Regional Council assist in mitigation.

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

6. LEVELS OF SERVICE

Assumption	There are no significant changes to the level of core or essential services within the Plan. The proposed new investments for Aquatic Facilities, the National Aquarium of new Zealand and Water Supply will result in an improved level of service for those activities. Also in the longer term, the investment programme in support of growth will potentially increase certain service levels incrementally over time.
Risk	Council may decide to significantly change the level of a service or services delivered.
Level of Uncertainty	Low
Impact on Integrity of LTP	Low: Service levels usually have a direct impact on Council's rate requirement. Any future changes to service levels are subject to consultation with the community.

7. SERVICE DELIVERY

Assumption	Section 17A of the LGA requires a review of the cost effectiveness of current arrangements for meeting the needs of the community for good quality local infrastructure, local public services and performance of regulatory functions at least every six years. The LTP does not include provision for the effects of any resulting changes. Any changes will be consulted in accordance with the Significance and Engagement Policy and included in subsequent LTPs and / or LTPs.
Risk	That Section 17A reviews will result in a change of method of delivery of good-quality local infrastructure, local public services and performance of regulatory functions.
Level of Uncertainty	Low
Impact on Integrity of LTP	Low: Since the reviews are based on cost effectiveness any changes will potentially lower projected rates increases for ensuing years. At this point in time no significant impacts are expected as a result of the s17a reviews.

8. USEFUL LIVES OF SIGNIFICANT ASSETS

Assumption	The assumed useful life of significant assets as outlined in the Statement of Accounting Policies determine the annual charge for the consumption or wearing out of assets (depreciation).
Risk	Useful lives may be shorter/longer than expected.
Level of Uncertainty	Low
Impact on Integrity of LTP	Low: Assets may have to be replaced sooner or later than forecast which may impact on Council cashflows.

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

9. DEPRECIATION

Assumption	<p>Depreciation rates applying to existing assets are outlined in the Statement of Accounting Policies and is based on the assumed useful lives of assets. Depreciation on new major infrastructural assets is calculated on actual expected rates commencing from expected time of completion of the project.</p> <p>The depreciation of other items is based on actual expected depreciation rates with a half year applied in the year of purchase.</p> <p>Depreciation is calculated on book values projected at 30 June, plus new capital.</p>
Risk	The cost adjustor forecasts could be incorrect. Capital projects could take longer to complete than budgeted. To some extent these factors mitigate each other.
Level of Uncertainty	Low
Impact on Integrity of LTP	Low: The impact of applying incorrect depreciation rates is not considered material in the context of the LTP.

10. SOURCES OF FUNDS FOR FUTURE REPLACEMENT OF SIGNIFICANT ASSETS

Assumption	It is assumed that significant infrastructural assets will be subject to continual renewal, and funded in the LTP. The source of funding any replacement of other significant assets is determined and disclosed. Refer also to the Funding of Capital Expenditure in the Revenue and Financing Policy, the Financial Strategy and the Infrastructure Strategy in the LTP.
Risk	Source of funding not available for asset renewal.
Level of Uncertainty	Low
Impact on Integrity of LTP	Low: If sufficient funds are not available for asset renewal within any given year, Council, due to its strong balance sheet, is able to borrow funds to meet its expenditure requirements.

11. ASSET REVALUATIONS

Assumption	Road, Library and Investment Property assets are assumed to be revalued annually. All other assets, excluding Plant and Equipment which are held at cost, are assumed to be revalued three yearly using the inflation rates outlined in Assumption 1.
Risk	The forecast revaluation could be incorrect, affecting the validity of the estimates.
Level of Uncertainty	Low
Impact on Integrity of LTP	Low: Variances in depreciation charge following revaluation would impact on the operating expenditure projections. Council has the ability to smooth the impact of any changes on rates subject to meeting or explaining any variance from the balanced budget requirements. Triennial reviews of the LTP provide for regular opportunities to update forecasts.

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

12. INVESTMENTS

Assumption	The interest rate on funds invested is assumed at 3.5% per annum. This is based on an assessment of market interest rates. The returns on the commercial and industrial property portfolio is assumed to grow at the same rate as other revenues based on the inflation factors in Assumption 1.
Risk	Changes in market interest rates and average levels of cash on deposit or invested may differ significantly from the plan. Investment income on the commercial and industrial land portfolio may grow at a different rate to the applied inflation factors.
Level of Uncertainty	Moderate
Impact on Integrity of LTP	Moderate: Lower than assumed rates of return could result in Council receiving less than forecast investment income. The possible effect is mitigated by Council taking a conservative approach to rates of return.

13. INTEREST ON LOANS

Assumption	Interest rates on borrowed funds are largely influenced by factors external to New Zealand's environment. Council has significant cash reserves and proposes to utilise internal borrowing to meet most of the borrowing requirements in this LTP. An interest rate of 4.5% has been assumed on all new internal and external loans.
Risk	<ul style="list-style-type: none"> i. Interest rates on borrowed funds are largely influenced by factors external to New Zealand's environment. A significant change to interest rates would affect the validity of the estimates. ii. The financial statements assume reserves and special funds revenues received are sufficient to provide internal funding for the majority of loan funded capital items.
Level of Uncertainty	Low
Impact on Integrity of LTP	<ul style="list-style-type: none"> i. A 1% increase in interest rates would increase total rate funded interest costs (for both internal and external debt) by about \$460,000 in 2018/19 rising to an impact of \$1.4million in 2027/28 ii. The impact of this level of increase in interest costs on rates is 0.7% in 2018/19 rising to 1.8% in 2027/28. Such increases are mitigated in terms of Council's overall rating requirement as exposure to external rates of interest is reduced via the use of internal loans. iii. As internal funds will be utilised for the majority of council's borrowing the only real exposure is for the \$30m of external borrowing proposed in this plan. Any changes in the interest rate charged on internal borrowings will be offset by an increase in internal interest revenues.

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

14. NEW ZEALAND TRANSPORT AGENCY (NZTA)

Assumption	It is assumed that the level of subsidies received through the NZTA is 51% for both maintenance works and new construction and renewal works.
Risk	That the level of NZTA subsidies changes.
Level of Uncertainty	Low
Impact on Integrity of LTP	Moderate: A change in subsidy level could affect the validity of the estimates by way of funding available for subsidised work and potentially the level of service delivered. Total NZTA subsidy of \$62m has been provided for in this plan. A 1% change in the assumed subsidy rate would result in an impact of about \$115,000 impact in 2018/19 and about \$129,000 in 2027/28.

15. LEGISLATION

Assumption	The Government has a number of legislative changes in discussion. This LTP does not include provision for any legislative change however it has been assumed that following the Havelock North Water inquiry treatment of all water supplies will become mandatory.
Risk	Legislative changes may arise that affect the services delivered by Council.
Level of Uncertainty	Low
Impact on Integrity of LTP	Moderate: Changes to Local Government Legislation are ongoing and issues currently flagged include Resource Legislation, Dog Control, Rating issues, Insurance, CCOs for infrastructure services and Water initiatives are currently under discussion. The only financial impacts included in this LTP relate to increased costs for treatment of our water supplies.

16. EMISSIONS TRADING SCHEME (ETS)

Assumption	Current ETS charges are met by the Omarunui Landfill. Known and expected charges have been incorporated into the landfill refuse charges in this plan.
Risk	Additional charges may be levied on fuel, power etc. which increase Councils' operating costs.
Level of Uncertainty	Low
Impact on Integrity of LTP	Low: Some additional ETS charges have been allowed for in this plan and any further increases would impact on financial forecasts. Mitigated by inclusion of LGCI adjustors, LTPning process and triennial review of LTP.

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

17. NATURAL DISASTERS

Assumption	This LTP does not include provision for major natural disasters or similar event that cannot be funded out of budgetary provisions. Note: The Infrastructure Strategy focusses on providing resilience of infrastructure to better cope with natural disasters.
Risk	Natural Adverse Event(s) could occur at a level where the effects could not be funded within budget.
Level of Uncertainty	Low
Impact on Integrity of LTP	High: Any significant natural disaster would impact on the financial forecasts in this plan. The financial effects of natural adverse events are partly mitigated by special risk insurance related to underground infrastructural assets. The LTP would require complete review as soon as possible after a significant natural disaster.

18. EARTHQUAKE PRONE BUILDINGS

Assumption	Council has vacated its Central Library and Civic Administration buildings as these buildings are considered to be earthquake prone. The current budgets provide for the continued operation in leased premises together with funding for investigations on long-term options for replacement\upgrade. Funding is included for earthquake assessments on other Council building however no allowance has been made for any possible remedial work on any other buildings.
Risk	The costs relating to the replacement\upgrade of the Central library and Civic Administration Building may exceed the budgetary provision in the LTP. Additional costs, beyond those budgeted, may be identified as a result of further earthquake assessments.
Level of Uncertainty	Moderate
Impact on Integrity of LTP	Moderate: The initial costs for the upgrade or replacement of the library and administration buildings would significantly exceed the annual cost of leased premises as provided in the LTP. Council is able to manage the cost as any future capital investment decision would be subject to a full business case. Costs to remediate any other buildings deemed to be earthquake prone, following earthquake assessments, would result in a budgetary impact. This would be considered an included in a future LTP or, if significant, in an LTP amendment.

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

19. CLIMATE CHANGE

Assumption	It is assumed that climate change will not have a significant impact on the Napier community during the period covered by the plan.
Risk	Although there is a likelihood of a localised flooding event the overall impact in the short to medium term is likely to be minimal.
Level of Uncertainty	Moderate
Impact on Integrity of LTP	Low: The effects of climate change are incremental and Council's infrastructure strategy enables the situation and planned response to be monitored and updated as required. Work on the Coastal Strategy also provides planning and response to climate change affects.

20. PARKLANDS RESIDENTIAL DEVELOPMENT

Assumption	The budget in this LTP assumes the sale of 365 Parklands lots. This is based on past sales and the amount of Council owned land zoned for residential development. The land available is expected to be exhausted in year 9 (2026/27) of this plan and revenues from Council's residential subdivision activities will cease at this point.
Risk	That the sales are higher or lower than the annual forecast.
Level of Uncertainty	Low
Impact on Integrity of LTP	Moderate: Customer demand and availability of builders has a direct impact on the number of lots offered and the actual sales completed. These factors are indirectly impacted by the national economy for better or worse. Higher or lower sales than budgeted will impact on revenue and cash reserves. Special projects for Council that are funded from this source may have to be delayed if funding is not available.

21. DEVELOPMENT AND FINANCIAL CONTRIBUTIONS

Assumption	It is assumed in this LTP that the revenue from financial contributions from Infill, Greenfields and Rural lots levied under the District Plan will be replaced by equivalent levels of development contributions when council changes the charging mechanism in year 5 of the plan.
Risk	That the change in charging mechanism results in a reduced level of income or that the number of subdivisions actioned are higher or lower than the annual forecast.
Level of Uncertainty	Low
Impact on Integrity of LTP	Medium: Council have sufficient lead time to ensure it transitions effectively into a new charging regime. Slower subdivision rates than projected will impact the revenue from Development Levies/Financial Contributions and consents. Council will manage the financial implications of this by monitoring subdivision approvals and timing.

SIGNIFICANT PLANNING ASSUMPTIONS CONTINUE

22. MAJOR PROJECT EXTERNAL FUNDING

Assumption	The Capital Programme includes a number of projects with proposed funding from external contributions (Government, Corporates and private individuals). These projects include the National Aquarium of NZ Expansion and the Napier Library Rebuild. The total of \$48.7 million is a significant source of project funding.
Risk	That the Government and / or external funding is unable to be secured. That the projects are unable to be delivered within the proposed budgets.
Level of Uncertainty	High
Impact on Integrity of LTP	If the proposed Government and external funding is not secured Council will need to reassess the scope and funding of the project.