

Significant Forecasting Assumptions

Inflation

The forecast financial information includes provision for inflation. Forecasts of price level changes prepared specifically for the local government sector by Business and Economic Research Limited (BERL) have been used to calculate the inflation rates for each year of this plan.

In year 1 there has been no inflation applied to operational revenue and costs, except for energy and

insurance costs which are based on current plus an inflated rate, as we are reasonably confident in forecasting actual revenue and expenditure figures in the immediate year timeframe.

There is a medium-high level of uncertainty about whether these forecasts will be correct, however unless there is an extraordinary period of sustained high inflation, it is unlikely to have too much of an impact on rates.

The inflation rates used from years 11 to 30 for the Infrastructure Strategy are based on the 10 year inflation rates.

If the inflation rates tabled on this page were all to increase by 1% it would impact total operating expenditure for the first three years of the LTP as follows:

	Current (\$000)	1%	Increase (\$000)
Year 1	19,985		20,188
Year 2	20,957		21,190
Year 3	23,420		23,675

	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	2026/ 2027	2027/ 2028	2028/ 2029	2029/ 2030	2030/ 2031
Roads	0.00%	3.10%	3.00%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Property	0.00%	2.50%	2.30%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
Water	0.00%	3.50%	2.60%	2.70%	2.90%	2.80%	3.20%	3.30%	3.40%	3.10%
Energy	4.00%	3.50%	2.60%	2.70%	2.90%	2.80%	3.20%	3.30%	3.40%	3.10%
Staff	0.00%	2.50%	2.30%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
Other expenses	5.00%	2.50%	2.30%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
FMC Contract	0.00%	3.10%	3.00%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Sundry Revenue	0.00%	2.50%	2.30%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%	2.20%
Waste Index	0.00%	3.50%	2.60%	2.70%	2.90%	2.80%	3.20%	3.30%	3.40%	3.10%

SIGNIFICANT FORECASTING ASSUMPTIONS

Interest

Interest on borrowings is based on the current weighted average rate, plus 0.3% in Year 4, and an increase of 0.5% in Year 7. The average loan term is currently over 5 years and 91% of Council debt is fixed so we do not expect too much fluctuation over the next few years in interest rates.

2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
2.20%	2.20%	2.20%	2.50%	2.50%	2.50%	2.50%	3.00%	3.00%	3.00%

Interest on investments is based on a similar methodology to the above, and increases as does interest on borrowings. It is expected that interest on debt and investments will move in a similar direction and at a similar rate over the next ten years.

2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
1.84%	1.84%	1.84%	2.14%	2.14%	2.14%	2.64%	2.64%	2.64%	2.64%

There is a high level of uncertainty about the interest rate assumption. With forecast interest expenditure on gross external debt in 2021/22 of \$476,756, an increase in interest rates of 1% will result in an additional \$216,708 in interest expenditure. Over the ten years of the LTP, the additional interest expenditure incurred as a result of a 1% increase in the interest rate assumption is \$3,481,729. The interest rate assumption will be reviewed annually during the preparation of the Annual Plan and updated as more current information provides more certainty.

External Funding

The Funding Assistance Rate (FAR) government roading subsidy is forecast to be 61% in 2021/22 and to remain at this level over the following nine years. This is based on projections supplied by Waka Kotahi. An assumption has also been made that Waka Kotahi will fund all roading projects budgeted for.

There is medium to high level of uncertainty around the FAR rate remaining at 61% over the 10 years of the LTP. The budget for the first 1 – 3 years of the LTP has not yet been approved by Waka Kotahi. If the FAR rate reduced by 1%, this would amount to a loss of Waka Kotahi subsidy in 2021/22 of \$89,279, and \$1,069,770 over the 10 year LTP period.

On 31 May 2021, Waka Kotahi endorsed indicative investment levels as part of the 2021-24 work programme. Council's work programme for this three year period was budgeted for \$20,642,000.

However, Waka Kotahi have indicated funding approval for \$19,700,000. The final funding amount will be determined and approved by late August 2021. Council will only incur operational and capital expenditure for roading up to the maximum amount approved by Waka Kotahi for funding. For the purposes of preparing the Long Term Plan budgets, Council has budgeted for the full work programme requested, and note that there is a risk that this won't be received as indicated by Waka Kotahi recently.

There is also a medium risk that Waka Kotahi may not fund all of the roading projects proposed from Year 4 onwards. The Brecon Road bridge project, for which Council has budgeted grant funding from years 5-6 of the LTP of \$7,015,000 has not yet been approved by Waka Kotahi. This would have a significant impact on the delivery of the project, and it is unlikely that the project would proceed without the Waka Kotahi contribution.

An assumption has been made that up to 100% external funding will be received for certain capital projects – grant funding budgeted of \$8,209,000. There is a high level of uncertainty around whether some of the funding will be received – particularly for the fitness gym (\$84,000), and part of the pool external funding not already confirmed (\$2,500,000), but there is a low level of uncertainty for projects confirmed for Provincial Growth Funding already.

If external funding for the pool of \$2,500,000 is not received, then Council will reduce the scope and associated cost for the pool from \$22,500,000 to the amount available.

Revaluation of assets

It is assumed that the value of Council assets will be consistent with the most recent asset valuation.

Assets will be revalued every three years, with the next asset revaluation for infrastructure assets to be in 2021/22, and for property assets to be in 2022/23.

The below table shows the inflation rate assumptions (cumulative rates) used for the asset revaluations for the various categories of assets which are taken from the relevant inflation category as published by Business and Economic Research Ltd (BERL, September 2020).

There is a medium to high level of uncertainty that the asset revaluation forecasts are correct. The value of Council assets and subsequent depreciation expense may change as a result of changes in valuation methodologies, or cost changes being significantly different to what has been forecast.

This could lead to an increase or decrease in rates, depending on the outcome at the time. For example, the revaluation for 2021/22 is based on an increase in roading assets of 3.1% and an increase in all other infrastructure assets of 3.5%, resulting in depreciation of \$5,426,000 in 2022/23.

If the increase in values was 4.1% and 4.5% respectively, depreciation for 2022/23 would be \$5,463,000.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Asset Revaluations - Roading	3.10%	0.00%	0.00%	9.27%	0.00%	0.00%	9.79%	0.00%	0.00%	10.66%
Asset Revaluations - Services Infrastructure	3.50%	0.00%	0.00%	9.06%	0.00%	0.00%	10.00%	0.00%	0.00%	12.05%
Asset Revaluations - Property	0.00%	2.50%	0.00%	0.00%	7.02%	0.00%	0.00%	7.39%	0.00%	0.00%



Capital Expenditure

Council has forecast for \$125,463,814 of capital expenditure over the 10 years of the LTP, with 40% of the forecasted projects to be delivered in the first three years. The key risk is that the Council is unable to deliver the works programmes as outlined. If the risk occurs then this creates a wave and backload of work, in particular continued delays in the delivery of renewals and upgrades, subsequently that may impact on the achievement of levels of service, potential increased costs from delays and risks to the continuity and delivery of services with the risks of assets failing before they can be replaced. This also comes with the risk that Council rates and borrows to fund a program that can't be delivered in the budgeted timeframe.

There is a medium to high level of uncertainty about the delivery of all projects within the years specified. If any replacement projects can be delayed then that will occur, likewise if any projects need to be prioritised due to asset failure, then they may need to be brought forward.

There is also some uncertainty about the capacity to resource each project to completion phase, and Council is taking on extra resource to greater ensure that projects, particularly those that will increase levels of service, can be delivered on time. The budget from Year 1 includes a new Project Manager, which Council has now completed successful recruitment for, with the candidate to commence in the role in early July 2021.

Skill Shortages

There is a risk that Council will not be able to recruit and retain staff as required. If this occurs then increased reliance may be placed on contractors, with an impact on costs, or there may be a risk to continuity of service and service levels, and loss of institutional knowledge.

The likelihood of this impacting Council increases with the more technical roles, especially roles that are unique to local government – including Regulatory roles such as building control and planning, and certain engineering roles, and Rates.

Council has developed a staff wellbeing strategy to increase staff retention and is investing in refining its performance measurement and remuneration system. In terms of being able to attract new staff, when a vacancy is anticipated, Council's policy is to recruit immediately and as widely as possible.

Council has also focused on succession planning in recent years with many low to mid-level positions having a clear career progression path.

Contractor Availability

The ability of Council to deliver many core infrastructure services as well as parks, reserves, cemeteries, and property maintenance depends on the ability of contractors to deliver to agreed expectations. An effective procurement process also relies on there being an adequate number of contractors to bid for Council work, enabling a more competitive process – not just on price but quality of delivery. The inability to get contractors for particular projects has affected the 2020/21 capital programme completion rate due to the significant number of shovel ready projects in the region and nationally. However, this is unlikely to have as large an impact over the next ten years.

There is a moderate to high level of risk that there will be a shortage of contractors or that contractors will not deliver to the agreed standards and specifications within the agreed time.

Council is supporting local industries by running the Mayors Taskforce for Jobs programme – matching people in Stratford who aren't currently working with available jobs in an attempt to bridge any shortage gaps.

Cost Certainty

There is a medium level of uncertainty around the cost of significant projects, which can be affected by demand and supply at the time, and a change in requirements either as a result of community feedback or legislative requirements. The projected capital expenditure for Brecon Road bridge of \$11,500,000, is based on a consultants estimate and an estimated cost for a business case for funding and contingency amounts, however, this amount could either go up or down and will not be known until after the business case stage is underway. On this bridge project in particular, there is a high level of uncertainty of whether it will go ahead – refer to External Funding section. It is expected that the future replacement of significant assets will be able to be funded from reserves.

Asset Life

The remaining useful lives of Council assets are recorded in the individual Asset Management Plans and have been taken from the most recent Independent Asset Revaluation.

There is a medium to high level of uncertainty about the expected useful lives which is based upon estimates by actual performance, industry standards, engineer estimates, and valuers. Plant, equipment and infrastructural assets lives range from 2 years to 120 years and were determined either upon initial recognition, or at the asset revaluation cycles. Depreciation and interest costs would increase if replacement capital expenditure was required earlier than anticipated. However, these impacts could be mitigated as capital projects could be reprioritised in the event of early expiration of assets. It is also possible for assets to last longer than their estimated useful life, again mitigating the effects of asset failure before the expected date. Service disruption may occur where

assets fail before their useful life, however, Council are very responsive when it comes to ensuring the core infrastructure services are maintained and operated with minimal disruption. If the three waters reforms were to proceed and Council's water assets are amalgamated into a larger entity, the situation may be different and less priority may be given to restoration of core services in an unplanned event.

There is a low level of uncertainty that Council activities will change and result in decisions not to replace existing assets. Where a decision is made not to replace an asset, this will be factored into capital projections. Council has a comprehensive asset management planning process in place to ensure there is an efficient renewal program.

Depreciation

Depreciation is calculated on a straight line basis on all property, plant and equipment, excluding land, at rates that will write off the value of the assets, less their estimated residual values, over their useful lives.

The useful lives of the classes of assets have been estimated as follows:

	Years
Buildings	10-100
Plant	5-10
Motor Vehicles	5
Fixtures and Fittings	5-10
Office Equipment	4-10
Roading Base course	15-80
Roading Seal	2-16
Roading Culverts	20-80
Roading Sumps	80
Signs	10
Bridges (including Tunnels)	60-100
Footpaths	20-80
Streetlights	30
Stormwater	20-80
Water Supply Treatment	20-120
Water Supply Reticulation	20-120
Wastewater Treatment	40-80
Wastewater Reticulation	40-80
Street Beautification	10-100

Council is constantly trying to improve the level and accuracy of asset data for core infrastructure recognising the current information could be improved.

SIGNIFICANT FORECASTING ASSUMPTIONS

Farm Milk Price

Fonterra sets the milk price for each season. For the purposes of forecasting, Council has used the average of the previous ten years (below) over the next ten years, of \$6.25.

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
\$7.60	\$6.08	\$5.84	\$8.40	\$4.40	\$3.90	\$6.12	\$6.69	\$6.35	\$7.14

There is a medium risk that the price will drop below \$6.25. A drop in the milk price of \$1 will result in revenue reducing by \$75,000, based on estimated milk production to remain consistent over the next ten years at 150,000 kg/milk solids produced annually.

Population Growth

Population and the number of rateable properties is expected to increase by 0.5% per annum. The Population Projections 2018-2051 report by Infometrics, dated April 2020, forecasts that the Stratford district population will, under a high growth model, increase from around 10,000 to 11,800 over the next 30 years (18% or 0.6% per annum). Council has noticed the upturn in Taranaki's regional growth which appears to be flowing through most of the provincial areas. In recent years there has been an increase in rating units of around 1%. However, it is not expected that this level of increase will be sustainable over the next ten years and so for the purposes of determining rating unit growth for the Long Term Plan, 0.5% growth has been used as a conservative measure.

This level of growth has also been used for the forecast increase in rating units. There is a medium to high level of uncertainty that population and rating unit growth will increase by 0.5% annually, and it may be higher or lower than forecast.

There is currently provision in the District Plan if new infrastructure is required to respond to new development. Those provisions allow Council to obtain

financial contributions from developers to respond to any development work required by Council.

Council has made provision for growth by proposing to invest in a self-funding property development between 2021 and 2023, at a slightly smaller scale to the 2020 Council subdivision. The cost proposed is purely an estimate based on the previous Council subdivision and hasn't taken into account the number of sections, change in land prices, and potential development work required.

The financial outcomes proposed for the subdivision are purely reliant on there being sufficient demand for all sections Council makes available for sale.

Current assets have the capacity to cope with the moderate growth experienced and forecast. It would take consistent growth of 1-3% for a considerable number of years before this would change.

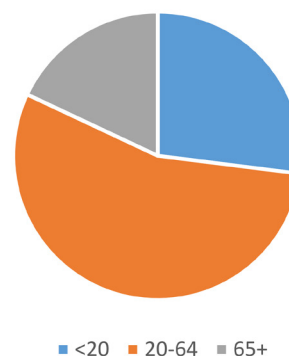
A lower than expected population growth outcome is considered unlikely, but could result in reduced revenue to Council from funding sources other than rates.

Societal Changes

The average age of Stratford residents is expected to increase over the next 30 years from 40 to 42 years. It is not expected that this increase will have a significant impact on Council services and infrastructure, and there is a low to medium level of uncertainty around this assumption as it is based on Infometrics data and is a trend that doesn't generally change dramatically within 10 years. 580 residents (5% of the district population) are aged 80+.

There are 1,250 Māori population – 48% are under 20. Māori make up 13% of the district population. This is expected to increase slightly over the next 10 – 30 years.

Age of Stratford District Population - 2020



Resource Consents

The Council regularly reviews regulatory changes that may or will affect the delivery of core services.

This primarily includes updates to resource consents and changes to legislation or national standards.

The assumption in the Long Term Plan is that renewed resource consents will have similar conditions as the expiring resource consents and will not include significant cost triggers and additional expenditure. There is a medium level of uncertainty on this assumption as it is dependent to a high degree on the legislative environment and environmental standards and expectations that exist at the time of renewal.

An assumption has also been made that all resource consent conditions will be met by Council.

There is a low to medium level risk that Council will face some form of non-compliance or breach consent conditions. Council has suitably qualified and skilled staff and appropriate processes and technology to control, monitor and manage consent conditions.

Legislative Reform

Resource Management Act reform – there is potential for the District Plan to be consolidated into a Regional Plan in the near future however no decision has been made on this yet. At this stage, Council has still budgeted for \$1,500,000 in years 3 to 5 of the Long Term Plan to produce a new District Plan to ensure current legislative timeframes are met. Council will monitor the ongoing situation. There is a high level of uncertainty around this, as the Government has announced legislative reform will occur by 2022 and will involve consolidation of planning documents between territorial authorities.

Three Waters reform - There is potential for the Water Supply, Wastewater, and Stormwater Activities to no longer be operated by individual territorial authorities in 3-4 years. The current proposal is to amalgamate these activities under a much larger multi-regional entity. The work on this is still underway and no firm decision has been made yet on what the reforms might look like, so the Long Term Plan does not allow for what is being proposed under the Three Water Reforms.

Instead the operating and capital expenditure budget are as per normal with some level of service expenditure required to ensure a sustainable water supply for future generations. If the 3-Water Activities were to be removed from Council, from say Year 4 of the Long Term Plan, this would have an impact on Council assets, debt, revenue, expenditure, and treasury covenants. There is a high level of uncertainty around what will happen, and by when.

Climate Change

Climate change is expected to affect the Stratford district over the short to long term through an increase in the frequency and intensity of storm events, and a change in rainfall patterns producing more extreme weather events, and an increase in drought events.

Extreme weather events and heavy rainfall would see increases in flooding, landslides, avalanches and mudslides during heavy rainfall events while on the flip side a lack of rain during summer months could see prolonged periods of drought. Both extremes place increased pressure on government, private flood insurance schemes, and disaster relief.

Council responds to and plans for impacts of climate change as part of asset management practices by monitoring NIWA data in order to plan for and make adjustments to infrastructure where and when needed. Where adjustments are needed they are undertaken through new works and/or asset replacement.

Council has budgeted for projects that will support the districts response to climate change. These include the Walking and Cycling strategy projects (\$3.35M for 10 years), Water Meter Installation (\$2.49M for 10 years) and the reticulation capacity upgrade for the storm water system (\$1.35M for 10 years).

Although the level of uncertainty around what impact Climate Change will have on the district over the next ten years is high, planned expenditure in the LTP does not include provision for any impacts of a natural disaster event. The costs will be addressed as or when they arise. The Revenue and Financing Policy allows for such expenditure to be loan funded if required.

Insurance cover is in place for above ground and below ground infrastructure assets, and Council has a contingency fund of \$500,000 to assist in initial damage control and restoration work required after any significant weather event. Council has deliberately kept the net debt to revenue limit (130%) below the Local Government Funding Agency (LGFA) net debt covenant of 175% to ensure that if borrowing is required urgently for unforeseen circumstances such as to respond to infrastructure damage from an extreme weather event, Council has the capacity to draw down additional funds through the LGFA.

The Infrastructure Strategy discusses climate change and its effects on the district in further detail. At this stage, no assessment has been done on the potential impact of the expected effects of climate change on the community's social, economic and cultural wellbeing. With the Stratford district being heavily reliant on agriculture, an increase in droughts as a result of climate change will have an impact on the viability of the industry, which would have a social and economic impact. Council is committed to working with Venture Taranaki to develop diversification and innovation in the food production industry via the Food Futures project.

COVID-19

No impact has been factored into the LTP budgets as a result of the Covid-19 pandemic and Council does not anticipate any further lockdowns. There is a low to medium level of uncertainty for this assumption, as the 2020 lockdown did not have a significant impact financially on Council, and is unlikely to occur again now that the Covid-19 vaccine is being administered in New Zealand.

The current situation is indicating only a minor impact overall on the Stratford District Council as a result of Covid-19. Of Council's total revenue, a low portion (10%) is reliant on user fees and charges, the remainder is made up of rates revenue and NZTA funding. Consequently, any future Covid-19 impact has not been factored into Long Term Plan considerations and no impact on revenue or supply chain availability from overseas is anticipated. The Long Term Plan is based on the assumption that the Council will adequately deal with any extraordinary situations as they arise.

The district is also more reliant on industries that haven't been majorly negatively impacted by the effects of Covid-19 such as agriculture, education, health care and other day to day necessity industries.

The food and service industries may experience sporadic closures or lower activity as the country moves in and out of the Covid-19 levels over the next year or so. This could ultimately result in some permanent closures, and reduced revenue coming in to the district. It may also result in Council being unable to achieve its non-financial performance measures that rely on visitor numbers or bookings e.g. library, pool, War Memorial Centre. Council anticipates no effect from Covid-19 from July 2021 onwards, and will explain any under performance results at the time, as is usually done.

With the border closures and quarantining likely to remain in effect for some time, some industries may also experience short-staffing and an inability to maintain capacity or grow due to some industries previously relying heavily on foreign workers, e.g. contracting industry, agricultural industry.

TET Multi-Sports Centre

The TET Multi Sports Centre was vested to Council on 1 July 2018. Although Council has assumed ownership of the TET Multi Sports Centre building, Council has decided not to fund depreciation of the asset. The assumption has been made that Council will take on minor operational costs and expenses associated with the stadium and in addition has budgeted for \$50,000 of capital expenditure on the stadium each year.

As a decision has not yet been made on the ultimate ownership of the Stadium, the budgets assume the Centre will continue to be run as per previous operations, in that the current lessee will manage the majority of the associated running costs of the building.

There is a medium level of uncertainty on this occurring as negotiations are yet to take place, and consultation with the community may be required in future.