Significant Forecasting Assumptions

Council is required to identify all the significant forecasting assumptions and risk underlying the financial estimates. Assumptions are necessary to allow Council to plan for expenditure and costs over the next ten years. They are the best reasonable assessment made on the basis of currently available information.

Any assumptions that apply only to specific activities will be included in the discussion on that activity.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Population growth The Nelson population is assumed to continue to grow based on the high series Statistics New Zealand projections. The population is expected to grow by 6,000 between 2018 and 2028 to 59,000. Population growth is expected to slow down over time, based on the assumptions that deaths will increase while births decrease slightly, and that migration rates also remain relatively constant.	That growth is higher than projected, putting pressure on Council services and infrastructure or that growth is lower than projected, putting pressure on ratepayers. Changes nationally may lead to changes in the rate of migration to or from Nelson, affecting population growth.	Low	Council is careful when applying population growth estimates to its infrastructure planning, given the uncertainties, so that there is generally a good margin for error should growth outstrip projections. New infrastructure is also usually built for the medium to long term so there is the ability to draw on that future capacity if population growth is higher than projected. This limits the risk exposure.

Affordability – an ageing population Nelson's population is ageing, and the proportion of the population aged 65 years and over is projected to increase from 20% in 2018 to 27% in 2028. Conversely, the proportion of the population aged under 15 years is projected to decrease from 18% in 2018 to 16% in 2028. A growing pattern of "sunbelt" migration is attracting increasing numbers of over 65 year olds to the Top of the South, with all net future growth in Nelson projected to be within that age group. As the population ages, it is assumed that the proportion of our population on a fixed income will increase and that there will be a corresponding downwards pressure on rates increases. The ageing population will also require a different balance of services/facilities/activities which will lead to changes in spending patterns across Council activities.	The age profile could vary from forecast, with accelerated ageing putting pressure on certain services and/or facilities.	Medium	Risks can be mitigated by Council working with the community to prepare for these changes and appropriately modifying investments in assets and provision of services to maintain rates affordability.
Affordability – the economy The Nelson Tasman economy has generally experienced slower growth than the national average over the last five years. However more recently the region has seen strong growth in tourism, horticulture, viticulture, construction, and retail sectors. It is assumed that the Nelson economy will continue to grow over the 10 year period, with stronger growth than the previous 10 year average expected for at least the first three years of the Long Term Plan 2018-28.	A less well performing regional economy may increase affordability issues in the community with some residents finding it more difficult to meet commitments, including rates.	Medium	A focus on affordability and support for initiatives such as the work of the Nelson Regional Development Agency combined with ongoing Council investment in maintaining Nelson's attractiveness as a destination for talent and investment can help to support the regional economy. It is also expected that rates of older adults remaining in the workforce will continue to rise improving incomes at older ages and mitigating against forecast workforce shortages.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Labour market It is assumed that Council will be able to hire the staff it needs with the appropriate technical qualifications to deliver the work programme. Long term there are sustained labour market shortages predicted but this is not expected to occur in the next ten years. However shortages in particular skills areas are likely.	A more competitive marketplace with accompanying labour shortages.	High	Reconsidering the way services are delivered may be necessary if there are skills shortages affecting delivery of the work programme. More use of consultants may result with impacts on budgets.

<table>
<tr><th>Forecasting assumption</th><th>Description of Risk</th><th>Impact if assumption not correct</th><th>Mitigation</th></tr>
<tr><td>Inflation / Price changes
Council uses inflation forecasts from Business and Economic Research Limited (BERL) to estimate inflation over time. These figures were updated in October 2017, and are prepared specifically for Local Government. It is assumed that inflation rates are as predicted and modelled in budgets.
<table>
<tr><th>Year ending</th><th>CPI %</th><th>BERL LGCI Opex %</th><th>BERL LGCI Capex %</th><th>BERL LGCI Total</th></tr>
<tr><td>30-Jun-19</td><td>1.8</td><td>2.0</td><td>2.0</td><td>2.0</td></tr>
<tr><td>30-Jun-20</td><td>1.6</td><td>2.2</td><td>2.2</td><td>2.2</td></tr>
<tr><td>30-Jun-21</td><td>1.6</td><td>2.2</td><td>2.2</td><td>2.2</td></tr>
<tr><td>30-Jun-22</td><td>1.7</td><td>2.2</td><td>2.2</td><td>2.2</td></tr>
<tr><td>30-Jun-23</td><td>1.7</td><td>2.3</td><td>2.3</td><td>2.3</td></tr>
<tr><td>30-Jun-24</td><td>1.8</td><td>2.3</td><td>2.4</td><td>2.3</td></tr>
<tr><td>30-Jun-25</td><td>1.8</td><td>2.4</td><td>2.4</td><td>2.4</td></tr>
<tr><td>30-Jun-26</td><td>1.9</td><td>2.5</td><td>2.5</td><td>2.5</td></tr>
<tr><td>30-Jun-27</td><td>1.9</td><td>2.5</td><td>2.6</td><td>2.6</td></tr>
<tr><td>30-Jun-28</td><td>2.0</td><td>2.6</td><td>2.7</td><td>2.7</td></tr>
</table>
CPI = Consumer price index
LGCI = Local government cost index

Opex = Operating expenditure

Capex = Capital expenditure</td>
<td>Inflation higher than expected, increasing costs for Council.</td>
<td>Medium</td>
<td>Likely to be some variation in actual rates of inflation from predictions and this will impact on the financial results of Council. Changing costs may mean the timing of projects needs to be adjusted.
Council has relied on the current parameters the Reserve Bank is required to operate under in terms of inflation being held with the range of 1-3%.</td></tr>
</table>

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Capital project costs A competitive market means tenders are being received well above expectations. Assume that this escalation in prices will continue over the first 2-3 years of the Long Term Plan.	More expensive projects means less can be achieved in the capital works programme or upwards pressure on rates and debt.	High	Increased flexibility in the capital works programme around timing of projects could help mitigate this trend.
Interest rates In preparing the Long Term Plan Council has assumed the following interest rates: Year ending 30-Jun-19 4.36% 30-Jun-20 4.22% 30-Jun-21 4.19% 30-Jun-22 4.51% 30-Jun-23 4.61% 30-Jun-24 4.67% 30-Jun-25 4.71% 30-Jun-26 4.80% 30-Jun-27 4.88% 30-Jun-28 4.94%	Higher interest rates will increase costs for Council. Lower interest rates will decrease costs.	High	Interest rates used are based on advice from Price Waterhouse Coopers and includes the cost of both funds already borrowed and anticipated new debt at anticipated future interest rates. If actual interest rates are higher than the assumed rate, this cost would be rated for or future borrowing requirements adjusted. A degree of protection against fluctuating interest rates has been provided through the use of interest rate swaps. Council is also a member of the Local Government Funding Agency which provides access to loans at a lower rate than Council could obtain directly from banks.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Useful lives of significant assets It is assumed that there will be no reassessment of the useful lives of assets during the ten year period covered by this plan. The detail of useful lives for each asset category is covered in the Statement of Accounting Policies.	Assets wearing out earlier than predicted and funding needs to be found for replacements.	Low	This may result in changes needing to be made to the underlying capital expenditure programme.
Vested Assets Vested Assets are engineering assets such as roads, sewers and water mains, paid for by developers and vested to Council on completion of the subdivision. It is assumed that vested assets increase by $7million per year adjusted by inflation. Council assumes that the impact of vested assets will be neutral, in that the costs associated with the additional assets will be offset by a proportionate increase in rates revenue.	That Council will have more assets vested thereby increasing the depreciation expense in subsequent years that is not offset by a proportionate increase in rates revenue.	Low	Vested assets must be maintained by Council and depreciation provided for, therefore if growth is higher than forecast Council will need to increase its budget to maintain those assets. The impact of higher or lower growth is not considered significant.
Insurance costs It has been assumed that insurance premiums continue at current levels plus inflation and that Council can get 100% of the cover it is required to hold (40% for infrastructure assets/60% covered by Central Government). It is also assumed that the 40/60% split continues.	Premiums increasing above inflation and/or Council cannot get 100% cover.	Medium	Any increase in premiums above the level assumed will have an impact on rates or the level of cover that Council adopts.
Return on investments It is assumed that the return on investments, including dividends from Council Controlled Trading Organisations and retained earnings on subsidiaries will continue at current levels plus inflation.	Returns lower than expected.	Low	This would impact on Council's ability to fund services and would likely require an increase in rates. Alternatively Council could consider reducing levels of service.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Accounting Policy Nelson City Council's accounting policy provides for its most significant asset classes (infrastructure assets and land, excluding land under roads) to be revalued with sufficient regularity that the carrying value does not differ materially from fair value. Infrastructure assets are revalued annually and land is reviewed annually and revalued at least every five years or if there is a material movement. For the purposes of this Long Term Plan, land revaluation is assumed to occur in years 2, 5, and 8. Council's investment property is revalued annually in accordance with generally accepted accounting practice. Revaluations have been based on the Business and Economic Research Ltd (BERL) forecasts of price level change adjusters and revaluation movements will be shown in the prospective Statement of Comprehensive Revenue and Expense.	Actual revaluation results differ significantly from those forecast in this Long Term Plan.	Medium	If the revaluations are different from those forecast it will affect fixed asset values and impact levels of depreciation expense and the rates funding requirement. Future Annual Plans and Long-term Plans will reflect the outcomes of actual revaluations.
Growth in rating units The estimated growth in the City's ratings units is 1% for each of the 10 years of the Long Term Plan. **Year** **Growth** **Number of rating units** 2018/19 - 22,235 2019/20 1% 22,457 2020/21 1% 22,682 2021/22 1% 22,909 2022/23 1% 23,138 2023/24 1% 23,369 2024/25 1% 23,603 2025/26 1% 23,839 2026/27 1% 24,077 2027/28 1% 24,318	Growth in rating units is higher or lower than projected	Low	Council has used current property information from its valuation service provider (Quotable Value) to assess the level of growth in rating unites, along with an assessment of year by year increases from recent years.

Forecasting assumption	**Description of Risk**	**Impact if assumption not correct**	**Mitigation**
NZ Transport Agency funding NZTA will provide an update to this assumption before the Long Term Plan is finalised. We expect this to be by June 2018. The moderation process is under way, and we anticipate a draft Government Policy Statement on Transport by the end of March, which will give more certainty around funding. The GPS is expected to be finalised in August 2018.	NZTA providing less funding than currently indicated, and Council's share of project costs therefore increasing.	Medium	Changes to the funding priorities of the NZ Transport Agency are outside Council control.
Loan arrangements It is assumed that Council's bankers will continue to renew the existing loan facilities.	Access to committed loan facilities less than expected.	Low	The Local Government Funding Agency should allow Council to diversify funding sources away from the local banks as well as being able to borrow for longer terms.
Co-funding arrangements It is assumed that for projects where other partners are contributing part of the funding, this funding will still be available. It is assumed that where Council could be eligible for Government funding (e.g. Housing Infrastructure Fund, Tourism Infrastructure Fund), Council will seek this funding.	Partners will no longer be in a position to provide funding which will result in an increased level of input from Council, or the termination of the project.	Medium	Viability of projects would be threatened and Council would need to consider its ongoing funding commitment.
Development contributions It is assumed that Council will collect $1.7 million p.a. from development contributions during the ten years of the Long Term Plan 2018-28.	The level of development contributions collected and the timing could results in insufficient income to cover the costs of required growth infrastructure.	Medium	Costs for infrastructure would need to be met from other sources.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Income from Development Contributions Council bases its financial forecasting for income from Development Contributions based on the funds received in previous years. This is because developments, and the income from these, takes time to be realised, and Council needs to minimise the risk of income being lower than forecast. This conservative approach uses an average of 230 new Household Units of Demand p.a. over the ten years.	If developments occur at an even slower rate than the conservative approach currently being applied in the Financial Statements, Council would receive less income. This would mean that, unless there was slowdown in the capital projects to support growth, the Council would need to borrow any shortfall until the developments were completed.	Low	Council reviews growth rates and the Development Contributions policy at least three yearly. Budgets, including income from Development Contributions, are reviewed each year as part of the Annual Report and Annual Planning processes. If development is slower than forecast then Council has the option of delaying or removing capital projects, and therefore keep within is planned debt levels.
Sources of funds for the future replacement of assets It is assumed that funding for the replacement of existing assets will be obtained from the appropriate sources as detailed in Council's Revenue and Financing Policy.	That a particular funding source is unavailable.	Low	Depreciation is used to fund renewals and is funded mainly through rates and user charges. Should other sources of capital funding such as subsidies or development/financial contributions differ from levels forecast in a particular activity, Council is able to access borrowings through its central treasury function.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Relationship with iwi It is assumed that the staff resource allocated to work with iwi and Māori post Te Tau Ihu settlements will increase. Partnership with Te Tau Ihu iwi will necessitate a different way of working and it is important that Council understands iwi expectations and aspirations. To support this new way of working will require provision of training to relevant staff, increased emphasis on recognising Council responsibilities to Maori and iwi under relevant legislation, understanding opportunities for iwi investment in our region and may require changes to consultation processes to allow for sufficient engagement. In some instances, external assistance may need to be employed. Working with iwi will result in the need for additional time and resources to engage meaningfully on particular projects. Likewise changing engagement with iwi will have implications for governance time and resources.	Establishing ways of working with Māori requires greater Council resource than anticipated. May result in the need to build additional time into project timelines or delay project start dates.	Medium	The financial impact of dedicating resources to meet Treaty, settlement and legislated commitments may impact on rates and time may impact on project delivery rates.
Earthquake prone buildings It is assumed that Council will face ongoing costs with regard to earthquake prone building assets, but that decisions about work to be undertaken and the timing of any necessary work will allow costs to be adequately spread. The Building (Earthquake-Prone Buildings) Amendment Act 2016 modifies the requirement on councils to identify potentially earthquake prone buildings. There is no requirement to complete seismic assessments for buildings it does not own, as was previously anticipated. Higher risk (Priority) buildings must be identified within five years and consultation is likely to be required to identify these priority buildings.	New work is identified, or required work is more significant than anticipated.	Medium	Significant additional expenditure on earthquake strengthening buildings could not be met by the current budget.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Resource consents It is assumed that any resource consents held by Council due for renewal during the life of the plan will obtain consent. It is assumed, however, that the consents will be subject to a more rigorous process, given national direction in areas such as freshwater. Note that a new consent will be required for the Nelson Wastewater Treatment Plant in December 2024.	Conditions of resource consents altered and significant new compliance costs or consents cannot be renewed as expected.	Medium	Budgets are in place for resource consents and it is assumed consents can be obtained.
Amalgamation Council's budgets for the Long Term Plan 2018-28 will be prepared assuming that Council will continue to be responsible only for the Nelson District through the term of the Long Term Plan and that there will be no amalgamation. However regional cooperation with Tasman District Council will continue to be a critical element in maximising benefits to the region, including through collaboration on projects such as the Regional Growth Programme.	A reorganisation process would require a significant amount of planning and consultation before an outcome was confirmed.	Medium	Amalgamation would require the Long Term Plans of both councils to be combined. Council will continue to work with Tasman District Council to develop shared services, where appropriate.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
Climate change and natural hazards It is assumed that natural disasters might occur in the Nelson area during the life of the Long Term Plan. The frequency of some types of natural disaster, e.g. flooding, might increase due to the impact of climate change. This has been the experience of recent years and is consistent with predictions of climate change impacts. Exposure of low lying land to the risk of inundation from sea level rise is another assumption related to climate change. Council relies on Ministry for Environment guidance in estimating sea level rise and reviews assumptions when the Ministry for the Environment releases updated guidelines. The Nelson Tasman Civil Defence Emergency Management Group Plan provides a regional risk assessment which illustrates the difference in our natural hazards, for example earthquakes (infrequent but high consequence) versus flooding (likely but less consequence).	Increased numbers or severity of events lead to increased costs for Council in both responding and building greater resilience into infrastructure.	High	A characteristic of the Nelson community is the concentration of lifelines infrastructure (roading network, port, airport, wastewater treatment ponds etc.) on low-lying areas. Council will increase its contributions to the Emergency Fund as one method of mitigating the risk of natural disasters. Another mitigation is the work identifying hazards in the draft Nelson Plan and advising affected landowners. There is also work to address climate change through investments in public transport, use of solar technology and maximising walking and cycling as modes of transport.
Government Policy Changes It is assumed that with the change in government there will be significant policy changes which will impact on the Council work programme. Changes to legislation impacting on local government are likely to take place during the period of the Long Term Plan. It is assumed that Central Government will work with councils to ensure that any legislative changes are managed appropriately and to ensure benefits from its commitment to partnership with the local government sector are realised.	Government policy shifts may be more significant than assumed or not allow reasonable implementation/transition.	Medium	Financial impact resulting from a need to respond to significant legislation and /or policy changes would impact on rates or fees and charges.

Forecasting assumption	Description of Risk	Impact if assumption not correct	Mitigation
National Policy Statement for Urban Development Capacity (NPS-UDC) It is assumed that Council can meet the requirements of the National Policy Statement for Urban Development Capacity (NPS-UDC) which requires local authorities to ensure there is sufficient development capacity to meet demand in the urban environment in the short term (within 3 years), medium term (3-10 years) and long term (10-30 years)[1]. The Nelson Urban Area is currently classed as a medium growth area. This classification may change upon revisions to the NPS-UDC[2] definitions or to the Statistics New Zealand Urban Area population projections.	Meeting the requirements of the NPS-UDC may result in changes to timing of infrastructure projects. Growth classification may change.	Low	Nelson City and Tasman District Council are collaborating to ensure both can meet the requirements of the NPS-UDC.

[1] Short-term capacity must be feasible, zoned and serviced while long-term capacity must be feasible, with servicing planned but does not need to be zoned yet. Local authorities with a medium or high growth urban area also need to provide an additional margin of feasible development capacity over and above projected demand of at least: 20% in the short and medium term; and 15% in the long term.

[2] The Nelson Urban Area includes all of the area units of Nelson, except for Whangamoa and it also includes Area Units within Tasman District Council boundaries of Aniseed Hill, Hope, Best Island, Bell Island, Ranzau, Richmond West and Richmond West. Note that the Nelson Urban Area boundary is also under review.