

Forecasting Assumptions

Te Taupori me te Ekenga / Population and Growth

1 Population

What we think will happen



Infometrics* revised their population projections in December 2023 and predict our population will grow by 2.9% (857 people) to 2037 and then decline by 3.0% from 2037 to 2054. This is because our birth rate is expected to decline while the death rate increases, with deaths exceeding births by the 2040s. A predicted steady in-migration of around 3,500 to 4,000 people per year will largely offset the population decline. Most of our modest growth is likely to occur in and around Hāwera, as that is where most of our residential and commercial development is taking place.

Risk – Low

There is a risk that the population increases or declines more than projected, which means we would need to review our growth-related projects and work programmes.

Likelihood - Unlikely

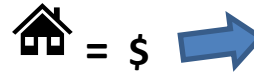
We consider that either scenario is unlikely, based on Infometrics' projections for the District and the Region.

** Infometrics is an economics consultancy that specialises in economic analysis, econometric modelling and forecasting, demographic and population projections.*

2

Change in number of rating units

What we think will happen



The number of residential and commercial subdivisions planned and under way around the District, particularly in Hāwera, means we can expect a minor increase in the rating base.

Risk – Low

If there is an increase in development ahead of the projections, we may not have infrastructure in place to meet this growth. We are addressing this by identifying areas of growth, such as the northern and western structure plans in Hāwera.

Likelihood – Likely

The rapid growth in subdivision development during the last three years is not expected to continue, although some further growth is likely.

3

Economic growth – South Taranaki

What we think will happen



The New Zealand economy has cooled, but there's still a long descent to 2% inflation to navigate from this point. High interest rates are cooling demand and have caused GDP data to look recessionary. However, despite weakness, capacity pressures need to weaken further in order to get inflation sustainably back to 2%. The interest rates remain relatively high, exacerbated by the floods and Cyclone Gabrielle in the first quarter of 2023. While these events have not directly affected South Taranaki, the loss of production and scarcity of resources are just two inflationary factors that have impacts on the economic well-being of our communities. Employment growth is predicted to be minimal according to Infometrics, with just 0.4% growth between now and 2034 and even less than that

further out. Some job reductions are expected in the agriculture sector as farmers reduce stocking rates to meet environmental requirements.

Risk - Medium

There is a risk that the economy will continue to perform poorly during the life of this plan, and this will create affordability issues for our residents.

Likelihood – Likely

We expect the economy to perform poorly for several years.

4 **Land use and development**

What we think will happen



Demand for residential, commercial and industrial sections is expected to continue to be mainly focused around Hāwera and Normanby, and to a lesser extent Ōpunakē in comparative terms. The current supply of consented subdivision lots is expected to meet demand for many years at current rates of development. An expected increase in demand for water and wastewater services in Hāwera’s new residential areas has been planned for through our Infrastructure Strategy.

In-fill subdivisions are most popular in Hāwera and Ōpunakē residential areas and three waters capacity for these activities must be considered. Ōpunakē and the Coastal Ward more generally, has seen an increase in resource consent applications that relate to renewable energy generation. It is expected that these applications will continue as New Zealand transitions into a green energy economy.

Risk – Low

If there is an increase beyond our projections, we may not have infrastructure in place to meet this growth or support new commercial or industrial facilities.

Likelihood – Unlikely

This is unlikely as work has commenced on supporting the area identified for the South Taranaki Business Park and the north and west Hāwera structure area.

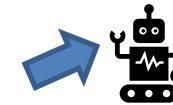
5 **Technological changes – how we work**

What we think will happen



We expect continued evolution of technology.

What could happen



Risk - Low

We are mindful that technology is evolving at rapid speed and could affect the way in which we operate. It is possible that there may be some technology advancements that we are unable to keep up with.

Cyberattacks are becoming more frequent and severe. The human and financial impact of attacks continues to rise in line with the increasing adoption of digital environment.

Likelihood – Possible

It is possible that there will be some technological changes during the life of this Plan. Failure to keep up with the changing technology could result in increased cyber security risk.

Impact - Likely

There is always a possibility of us not keeping up with changing technology. This could result in additional costs, loss of productivity and negative publicity. However, we currently have a digital transformation strategy in place which reduces likelihood of this happening as well as systems and processes in place to keep with emerging technologies.

6 **Affordability**

What we think will happen

What could happen



The ability of our community to continue to absorb ongoing increases in rates and fees and charges is of concern. Average household incomes in South Taranaki have been around 25% lower than nationally for some years, and there are several reasons for this. Large numbers of farm workers and others on lower incomes, relatively high numbers of beneficiaries, elderly and Māori households (with higher than average numbers of young people) are contributing factors. This means that rates comprise a higher proportion of expenditure for many of our households, compared to the national average. As we are expecting a small population increase to 2037 followed by a slow decline, it is unlikely that there will be significantly more households or rating units to share the rates burden.

Risk – Low

There is a risk that our community will be unable to absorb high rate or fees and charges increases.

Likelihood – Possible

We are seeing an increasing trend of non-payment through the quarterly debtors report submitted to our Risk and Assurance Committee.

Taiao me te Toitū / Environment and Sustainability

7 Climate Change

What we think will happen



We anticipate that over the life of this plan, temperatures will continue to increase and so will the likelihood of droughts, fast changing weather patterns, extreme rain and severe wind events. Ministry for the Environment has predicted that there is the potential for low to moderate changes to the Taranaki climate before 2090, but do not specify predictions for the 2040 timeframe. The National Institute of Water and Atmospheric Research (NIWA) in the report 'Climate Change Projections and Impacts for Taranaki (2022)' predicts temperature increases of 0.5 to 1.0°C by 2040.

Climate change is likely to affect most Council activities over the medium to long term. Our roading network will be the most affected by an increase in the frequency and intensity of rainfall and storms. Our asset management planning includes consideration of climate change impacts, and preparing for emergency works that may be required to be completed quickly.

While we expect sea levels will continue to rise at a rate of around 3mm per year, South Taranaki is protected by high cliffs in most areas. Impacts will be localised, although coastline erosion is an issue that cannot be dismissed entirely.

Risk - Medium

There is a risk that there will be more frequent and severe weather events than anticipated, which will put extra pressure on our built and natural environments, assets and infrastructure. We maintain and update our Business Continuity Plans and we have performance measures to monitor our preparedness for a civil defence emergency event.

Likelihood – Likely

It is likely that the increasing numbers of severe weather events will be greater than predicted.

8 Biological disasters/pandemics



The four Council's across Taranaki each contribute to the operational costs of the Taranaki Emergency Office (TEMO) which is responsible for managing emergency responses at a regional level. Plans to manage any potential biological disasters or pandemics are in place and Council are prepared to establish a local Emergency Operations Centre in Hāwera and activate our Business Continuity Plans if required. In the event of a biological or pandemic event, we expect to be able to deliver essential services to the community.

Risk - Low

There is a possibility that a biological disaster or pandemic will prevent the Council for delivering essential services to the community.

Likelihood – Unlikely

We expect to be able to deliver essential services to the community by activating our Business Continuity Plans.

9 Natural Disasters / Volcanic Eruption

What we think will happen

We are part of the Taranaki Emergency Management Office (TEMO) and plans are in place to manage natural disasters at all scales. We are prepared to establish a local Emergency Operations Centre in Hāwera and activate our Business Continuity Plans in the event of a natural disaster or volcanic eruption. There are opportunities to trigger a regional response to a major event which will include support from TEMO.

Storm events that result in localised flooding and land slips have been happening on a regular basis, to the extent that they are almost considered as part of 'business as usual' response operations. While not diminishing the impacts of these weather events, a major natural disaster in South Taranaki could include a volcanic eruption, an earthquake, tsunami, or a dam failure. Although these are unlikely to occur, the severity of any of these events could be significant to life and property. It is not anticipated that any of these major natural disasters will take place during the life of this plan, however, local and regional responses are ready to respond.

Council agreed to self-insure above ground assets for material damage to the value of \$136 million in May 2023. Council has agreed to "ring fence" \$10 million from the Long Term Investment Fund as an internal loan to be used to fund self-insure a portion of a claim/s should a significant event occur until the "Disaster Recovery Fund" reaches \$10m.

Risk - Medium

There is a possibility that our ability to respond is severely disrupted during a disaster or an event.

Likelihood – Unlikely

We expect to be able to respond during a disaster, unless it is a wide-spread event that creates an unprecedented demand for resources.

Impact

The Council needs to be prepared for any eventuality it may face in terms of natural disaster. A complete destruction scenario is unlikely but if it were to occur, the Council is able to rely on its strong balance sheet and capacity to borrow more money, as well as having the LTIF to cover some risk.

In total destruction scenario, the council may need to borrow up to \$136 million, this would result in a gross debt levels increase from 150% to 300% of revenue, or net debt levels 160% of revenue.

10 Energy

What we think will happen



What could happen



Energy costs have risen significantly over the 2021 - 2023 period due to taxes, levies and importing costs. We expect energy costs will increase in line with inflation but also to motivate households and organisations to transition to clean energy solutions. Prices have increased for all types of energy generation, including fossil fuel and renewable energy sources due to the costs of living increases.

South Taranaki has become an attractive District to companies who want to establish and manage renewable energy activities. It is too early to make a statement on whether local renewable energy sources will have a positive or negative financial impact on the District. There are global conflicts happening around the world which are causing delays on the delivery and availability of non-renewable energy resources which can contribute to the rise in costs. The government has also recently introduced road user charges for EV-style vehicles, which may act as a disincentive to the decarbonisation of the vehicle fleet in the District.

Risk - Low

There is a risk that there will be unexpectedly large increases in energy costs, particularly transport-related, which could result in changes to living, working and recreation patterns. Climate change and conflicts (i.e Middle East and Ukraine) have caused increased concern on the availability of energy resources.

Likelihood – Likely

It is likely that there will be continued increases in energy costs over the life of this Plan.

11 Waste minimisation levy

What we think will happen



We anticipate that there will be substantial increases in waste minimisation levies in the next five to ten years to incentivise low waste alternatives.

Risk - Low

There is a possibility that waste minimisation levies will increase beyond anticipated levels and severely increase the costs associated with recycling.

Likelihood – Unlikely

It is unlikely that the levies will rise beyond the expected levels.

Whaiture / Legislative Requirements

12 Legislative changes

What we think will happen



Some of the legislative changes made in the last three years have been reversed and will be replaced with new legislation. Those relating to three waters and resource management are most likely to have impacts on the delivery of our core services and finances during the life of this Plan, including income and debt.

Risk - Medium

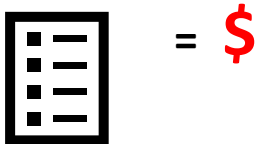
There is a risk that additional and unexpected changes to legislation will affect how we operate, what services we provide and who pays.

Likelihood - Possible

It is possible that there will be unexpected legislative changes during the life of this Plan.

13 Resource consents held by the Council

What we think will happen



The Taranaki Regional Council has indicated that there will be an increase in consent conditions with more stringent requirements around the discharge of treated wastewater and roading-related stormwater into the environment.

Risk – High

There is a risk that resource consent conditions may increase beyond initial expectations, potentially leading to higher costs and/or non-compliance with the conditions.

Likelihood – Likely

It is likely that resource consent conditions will become even more stringent.

Ahumoni / Financial

14 Global economy

What we think will happen



What could happen



Late in 2022, BERL forecast a gloomy global economic outlook. The continuing war in Ukraine and more recently the one in the Middle East, as well as changes to political alliances such as closer relations between India, Iran and China and on-going supply chain issues have contributed to elevated levels of global inflation and there is varied success in controlling it. We do not expect the global economic climate to change greatly during the life of this Plan. We will continue to monitor international and national developments and can respond by changing priorities through the Annual Plan.

Risk - Medium

A risk remains for a global economic crisis to occur as a result of the current geopolitical factors. BERL has predicted another economic crisis in the 2030s, but there is a possibility it could occur earlier. This could have a major impact on the people of South Taranaki.

Likelihood – Likely

At present, another global economic crisis during the life of this Plan seems fairly likely.

15 Inflation

What we think will happen



What could happen



We have predicted inflation as per the latest BERL estimates, which are included further on page xxx.

Risk - Medium

It is possible that inflation will not match our estimates, which could result in unbudgeted costs.

Likelihood – Unlikely

Based on advice from economists, we think it is unlikely that inflation will exceed our estimates unless inflation is impacted by unforeseen circumstances for example conflict in middle east.

16 Interest rates on loans (external borrowings)

What we think will happen



What could happen



In the current financial climate, we expect interest rates on loans to be 5.06% to 6.41%. Rates are not predicted to decrease until later part of the 2024.

Risk - Medium

It is possible that interest rates on loans may increase more than forecast or budgeted. We currently have \$129m of external borrowing and we maintain our fixed and floating rate ratio as per the Liability Management Policy. Our external debt is projected to be \$225.3m. For every 0.25% increase in interest rate, total rates will have to increase by a maximum of 0.66% on \$129m debt and by 1.15% on \$225.3m debt. The impact may be reduced depending on the fixed and floating percentage of actual debt.

Likelihood – Unlikely

We manage our interest rate risk exposure through our “Liability Management Policy’ compliance, which reduced likelihood of this happening. We do not expect interest rates to increase more than forecast.

17 **Interest rates on investments**

What we think will happen



What could happen



The increases in the official cash rate mean that forecast interest rates on investments are expected to be between 5.50% to 7%, based on current and projected interest rates.

Risk – Medium

It is possible that interest rates on investments are lower than forecast or budgeted. A 1% increase in interest rate on investments will result in about \$10,000 additional income for every \$1 million term deposit for the year.

Likelihood – Unlikely

As the Reserve Bank’s official cash rate is not expected to move markedly for some time, interest rates higher or lower than anticipated are unlikely.

18 **Credit rating**

What we think will happen



What could happen



We expect our credit rating to remain at AA. The loss of three waters activities would have drastically reduced our debt levels, but our income would also have reduced. Now that three waters services assets are being retained, our debt to income and debt to assets ratios will remain high, which may affect our future credit rating.

Risk - Medium

If our credit rating is downgraded, our borrowing costs will increase.

Likelihood – Unlikely

Although our debt ratios are high, our financial position is sound, especially due to our Long Term Investment Fund which keeps our net debt to minimum. Therefore, we think our credit rating is unlikely to be downgraded.

19 **Depreciation**

What we think will happen



The actual depreciation may differ from the forecast.

Risk - Medium

If depreciation calculations are significantly different from the amount budgeted, rates will need to be increased. A 5% increase in depreciation will have a maximum impact of approximately \$15 for targeted water rates and \$0.02-\$0.06 per cubic metre on water schemes. A 5% increase in depreciation will have a maximum impact of \$18 per year on wastewater. A 5% increase in depreciation for all other activities will have an impact of around 0.8% on total rates.

Likelihood – Unlikely

It is unlikely that our forecast depreciation is significantly different due to regular revaluations of our assets which include assessment for fair value and reviewing the condition of our assets.

20 **Currency movements and asset values**



Some of our infrastructural capital projects have components sourced directly from overseas and currency movements could increase our costs and/or affect our ability to complete programmed works within budget. Our inflation adjustments cater for currency movements and the impact on related asset values will not be material.

Risk - Low

There is a risk that the exchange rate will change adversely.

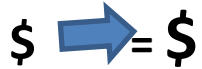
Likelihood – Possible

This risk has increased due to the uncertainty and impacts of recent and current global events. However, the impact will not be material.

Haumitanga Tūmau Roa/ Long Term Investment Fund

21 Long Term Investment Fund

What we think will happen



The forecast return on the Long Term Investment Fund is expected to be between \$10.4 million and \$12.7 million (average rate of return between 7.2% and 7.6% on external investments and between 5.7% and 7.1% on internal investments). This is based on our Statement of Investment Policy Objectives (SIPO), together with our strategic Asset Allocation / Benchmark Portfolio. We need to achieve a minimum return of \$6.7m annually to meet our subsidy obligation, on average, over the ten-year period.

Risk – Medium

Lower than forecast returns would mean we receive less income than budgeted. A 1% reduction in return in Year 1 of the LTP would reduce income by \$1.3 million.

Likelihood – Unlikely

The LTIF can fluctuate from year to year, but the overall trend is positive and it is unlikely that we would receive less than the budgeted income in the longer term.

Pūtea / Funding

22 Waka Kotahi / NZTA Funding Assistance Rate (FAR)

What we think will happen



What could happen



Waka Kotahi increased South Taranaki’s FAR from 63% to 65%. Our roading budget has been based on the FAR rate remaining at 65% for the life of this plan.

Risk - Medium

There is some uncertainty around the new government’s priorities and there is a risk that central government could decide to reduce the FAR rate or the amount of funding available to subsidise Council’s roading costs.

Likelihood – Possible

There is a possibility that central government will decrease our FAR rate and/or the funding available to subsidise Council’s roading costs.

Impact

If the funding decreases this could significantly impact the Council’s ability to pay for the planned works. The Council would need to consider their levels of services provided or pay for a percentage of the roading programme through a targeting roading rate. A 2% reduction in subsidy would mean the roading rate will need to be increased by \$581,000, resulting in an increase of 1.2% on total rates.

23 Waka Kotahi / NZTA Confirmation of roading programme

What we think will happen



What could happen



Our planned roading programme for the first three years of this LTP has been submitted to Waka Kotahi to approve the projects and renewals we have proposed.

Risk - Medium

There is a risk that our planned roading programme is not fully approved by Waka Kotahi.

Likelihood – Possible

Because of the uncertain economic environment and the new government’s priorities, we believe our overall funding from Waka Kotahi could possibly decrease over the life of this Plan.

Impact

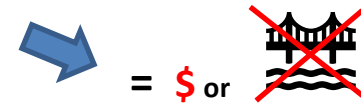
If Waka Kotahi does not approve the roading programme this could significantly impact the Council’s ability to pay for the planned works. The Council would need to consider their levels of services provided or pay for a percentage of the roading programme through a targeting roading rate.

24 Project funding from other sources

What we think will happen



What could happen



It is anticipated that external funding sources will remain available to us.

Risk – Medium

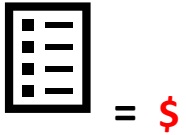
If there is less or no external funding available, our costs would increase and/or major projects may be put on hold or cancelled.

Likelihood – Likely

Given the current economic climate and the fact that the new Government's policy direction is still not clear, it is likely that external funding sources may be limited during the life of this Plan.

25 **Local Government Funding Agency (LGFA) guarantee**

What we think will happen



We expect that the Local Government Funding Agency will continue to be a funding source and the Agency will remain solvent.

Risk - Low

There is a minor risk that the LGFA defaults and will be unable to support us.

Likelihood – Unlikely

We believe the LGFA is unlikely to default.

Hapori / Community

26 Relationships with external bodies

What we think will happen



We have good working relationships with external bodies including Iwi, the Regional Council and Government departments. This plan includes the newly adopted He Pou Tikanga, Ngā iwi o te Tai Whakarunga - Council Partnership Strategy which outlines the commitment from how iwi and Council on how we will work together. We will continue to build on these relationships and identify areas where they can be developed further.

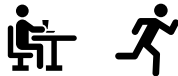
Risk - Low

If there is a lack of desire for collaboration or co-operation, this may result in a loss of efficiency benefits and/or the loss of important partners.

Likelihood – Unlikely

It is unlikely that our relationships with external bodies will deteriorate.

What could happen



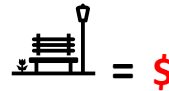
A loss of support from the community may mean the benefits created from the completion of projects will be minimal or projects may need to be cancelled.

Likelihood – Unlikely

The Council is generally aware of community feeling and we think loss of support is unlikely.

28 Levels of service – community expectations

What we think will happen



We carry out periodic service delivery reviews and acknowledge that the community may expect higher levels of service than we can meet within existing budgets.

Risk - Low

There is a risk that the community will expect that Council will be able to maintain the same levels of service without any significant rate increase.

Likelihood – Likely

It is likely the community will not understand how local government costs increases have been much higher than CPI inflation. This will be mitigated through good communication in our consultation document.

What could happen



27 Community support

What we think will happen



We expect the community will continue to support the Council and the projects we have committed to through the LTP.

Risk - Low

What could happen



Ngā Kaupapa me ngā Atawhai o te Hanganga ā-Roto / Infrastructure Projects and Maintenance

29 Three Waters

The change in Government direction following the 2023 election means we have reinstated three waters for the full ten years of this Plan. Although we expect to retain ownership of the assets in the future, it is expected that the operational model is likely to change during the life of this Plan. The three Taranaki district councils are continuing to investigate how three waters services could be delivered more efficiently.

Risk – Low

Another change in direction for three waters during the first three years of this Plan is not anticipated. New legislation currently under development will provide greater direction on how the National-led government’s Local Water Done Well will be delivered.

Likelihood – Likely

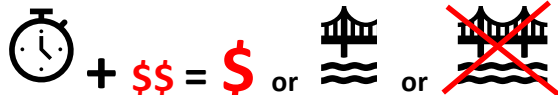
It is likely that there will be some change in the way three waters is delivered in Taranaki within the next three years.

30 Major capital projects

What we think will happen



What could happen



We have experienced difficulty in completing projects because of issues with contractor and resource availability, feedback via community consultation and legal issues. In the last financial year we achieved \$34m of our capital works

programme. On average, we have achieved \$29m per year over the last three years. Projects are identified and planned utilising the best information available, but from time to time unforeseen circumstances can affect the timing or costs associated with major capital projects.

Risk - High

There is a risk that we will not be able to achieve our planned capital works programme. Delays in delivering projects are likely to result in higher costs, carryovers on the capital works programme and an increase in reactive maintenance and operating costs.

Likelihood – Possible

There are things we can’t control, such as the availability of contractors, outcome of consultation with the community and legal requirements which could impact our ability to complete the capital works programme.

Impact

The delayed capital expenditure has an impact on borrowing costs and the original costs of the project. Every \$1m delayed will mean a reduction of \$22k - \$45k in borrowings costs for the year. Capital expenditure may increase by the inflation index, resulting in increased borrowing costs, and every 1% increase in the cost of a \$1m project will have an impact of \$220 to \$450 per year on borrowing costs.

31 Maintenance contractors

What we think will happen



What could happen



We expect contractors will be available to continue to undertake maintenance for the Council at acceptable rates.

Risk - Medium

A shortage of contractors could affect our levels of service or increase our maintenance costs, or both.

Likelihood – Likely

Contractors have already indicated that substantial contract price increases can be expected.

32 Useful asset life



The useful asset life reflects the best estimate available based on the forecast date and current asset information held. A revaluation was undertaken in June 2022, when our infrastructural assets were assessed and valued, and the results are reflected in this plan.

Risk - Medium

If the useful asset life information is incomplete or inaccurate there would be an impact on our future depreciation calculations and renewals expenditure. As a result, rates may be set either too high or too low.

Likelihood – Possible

While our asset information, including remaining useful lives, is improving, there are still gaps that mean renewals expenditure and depreciation calculations may be inaccurate.

The impact of change in depreciation as a result of change in useful life is explained in detail under the forecasting assumption for depreciation.

33 Funding replacement assets



Funds need to be available for the replacement of strategic assets across the District. Asset replacements are funded through a variety of sources, as detailed in the Revenue and Financing Policy.

Risk - Low

If the Council decides to change its policy on how to fund assets, this will have an impact on rates. There is also a risk that funding for the replacement of strategic assets is not available.

Likelihood – Unlikely

We are unlikely to make major changes to our Revenue and Financing Policy.

34 Revaluation of non-current (fixed) assets

likely



Forecast valuations of fixed assets are based on BERL indicators and are considered to be correct.

Risk - Low

If there is a large difference between how much we forecast the assets to be worth and the actual value of the assets, there will be an impact on the Council’s budgets and rates.

Likelihood – Likely

The 2022 asset revaluation illustrated how large, unexpected valuation increases affect budgets. We do not expect similar levels of increases in the medium term.

Other relevant forecasting information

In addition to the significant forecasting assumptions outlined above, the Council makes a number of other judgements and estimates in preparing the Long Term Plan. This section details other relevant forecasting information.

The below BERL adjustors have been used for revaluation projection

Year ending	Roading %	Water reticulation %	Water non-reticulation %
Jun-25	4.6	5.6	4.6
Jun-26	8.2	9.8	8.2
Jun-27	10.3	12.9	10.3
Jun-28	13.1	16.2	13.1
Jun-29	16.2	19.5	16.2
Jun-30	19.2	22.7	19.2
Jun-31	22.1	25.9	22.1
Jun-32	25.1	29.0	25.1
Jun-33	28.0	32.0	28.0
Jun-34	31.0	35.1	31.0

Inflation Factors

Source: BERL 2023

Reason: BERL adjustors are widely used in the Local Government sector as they are deemed to be more relevant and applicable.

Inflation factors	Factor Years	Factor Years
Adjustor Class	Year 1	Years 2-10

Roading	Local Govt Cost Adjustors, Legacy Table - final version (with Waters)	Local Govt Cost Adjustors, New Table - final version (without Waters)
Water & Environment	Local Govt Cost Adjustors, Legacy Table - final version (with Waters)	Local Govt Cost Adjustors, Legacy Table - interim version (with Waters)
Community Activities	Local Govt Cost Adjustors, Legacy Table - final version (with Waters)	Local Govt Cost Adjustors, New Table - final version (without Waters)
Planning & Regulation	Local Govt Cost Adjustors, Legacy Table - final version (with Waters)	Local Govt Cost Adjustors, New Table - final version (without Waters)
Waste	Local Govt Cost Adjustors, New Table - final version (without Waters)	Local Govt Cost Adjustors, New Table - final version (without Waters)
Salaries	Local Govt Price Indices - final version (1/2 LG sector/1/2 private sector)	Local Govt Price Indices - final version (1/2 LG sector/1/2 private sector)

Year ending	Adjustor Class: Cumulative Change					
	Roading	Water & Environment	Community Activities	Planning & Regulation	Waste	Salaries
Jun-25	0.029	0.036	0.027	0.026	0.030	0.023
Jun-26	0.050	0.059	0.048	0.048	0.052	0.041
Jun-27	0.074	0.082	0.071	0.071	0.076	0.059
Jun-28	0.098	0.105	0.094	0.093	0.102	0.075
Jun-29	0.123	0.128	0.117	0.115	0.127	0.090
Jun-30	0.146	0.151	0.139	0.136	0.152	0.104
Jun-31	0.169	0.174	0.161	0.158	0.177	0.119
Jun-32	0.192	0.197	0.183	0.179	0.202	0.133
Jun-33	0.216	0.220	0.206	0.200	0.227	0.148
Jun-34	0.239	0.243	0.227	0.221	0.252	0.164

Balanced Budget Requirement

Section 100 of the Local Government Act 2002 (LGA) requires local authorities to set each year's operating revenue at a level sufficient to meet its operating expenditure for that year. This is known as the balanced budget requirement.

However, the LGA provides local authorities with discretion to vary its operating revenues where it resolves that it is financially prudent to do so. In reaching this decision a local authority must have regard to:

- a. the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the Long Term Plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
- b. the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
- c. the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life; and
- d. the funding and financial policies adopted under Section 102.

The overarching principles for application of the balanced budget requirement are contained in the Council's Revenue and Financing Policy. The financial impact of these principles is detailed in both the Funding Impact Statement and the Significant Forecasting Assumptions. In accordance with Section 100 of the LGA the Council has resolved that it is financially prudent to depart from the balanced budget requirement in the following circumstances:

Non-funding of depreciation on Council assets

The Council is satisfied that it is not financially prudent to fund all/part of the depreciation expenditure on its non-strategic assets. It is funding part of the depreciation that will enable components of the assets to be replaced to ensure the useful life of the asset's structure can be achieved. A decision on the total replacement of the asset will be made at the time the asset's useful life expires.

All strategic assets will have depreciation fully funded with the exception of some assets associated with the Pope Water Supply (as it is planned to amalgamate the Scheme and these assets will not require replacement) and all the Council assets associated with the Nukumarū Water Supply (at the request of the Nukumarū Consumers Committee). While the Plan has assumed the following projects will result in capital assets: water quality investigations, inflow and infiltration investigations, condition reviews, network modelling, it does not provide for the depreciation to be funded as it

is not certain that an asset will be created, nor is there certainty about the life of the assets created. Once the assets are created from these projects, the depreciation will be addressed.

Asset sales

No asset sales are proposed in the Long Term Plan.

Drawdowns from LTIF earnings

The following drawdowns from the LTIF earnings are factored into each year of the ten year projections, and are reviewed every three years during the Long Term Plan review.

Rates subsidy – \$4.22 million for the general and roading rates subsidy.

Capital projects loan repayments – \$1.73 million to fund selected community projects (for example, TSB Hub’s loan repayments).

Hāwera Town Centre Development (including Council’s Earthquake Prone Buildings, Initial Seismic Assessments and Council’s Assistance Package) – \$762k per annum on average to fund the above loan funded projects.

Inflation Fluctuation Reserves (IFR) for Town Centre Development (including additional funding for the Hāwera Town Centre Project) – \$5.4 million to come from IFR and \$4 million to come from Waka Kotahi Subsidy.

Disclosures

Prospective financial information

The prospective financial information in this Long Term Plan is based on assumptions that the Council reasonably expects to occur. However, readers should be aware that actual results are likely to vary from the information presented and these variations may be material, especially for the years 2026/27 onwards.

Differences between prospective financial information explanations

Accounting standard FRS42 requires us to explain the relationship between the prospective financial statements and the additional information provided in the activity statements.

The revenue on the income statement represents the totals from the activity statements together with the subsidy from the Long Term Investment Fund and general rates allocated to and fees of the support centres. The income and expenditure of support centres (interest costs, depreciation and overheads not recovered) that have not been allocated to other activities are included directly in the financial statements. The total income for the Council reflects the impact of the rates subsidy, commissions from the Taranaki Regional Council, petrol tax, rates penalties and general interest, which are not reflected in any individual activity statement.

The cash flow statement indicates movements in expected debtor and creditor balances, that is, amounts being paid/received from previous years and amounts that will be paid/ received in future years, while the Income Statement shows income and expenditure on an accruals basis. The Funding Impact Statement reflects the impact of the subsidy and fees used to reduce the rating requirement. This is not split on the activity statements. The funding impact statement also incorporates the allocation of the rate subsidy and fees between UAGC, general and roading rate.

Effect of Council's Rate Remission Policy

The implementation of the Council's Rate Remission Policy is estimated at \$202,000 per year on average and is recovered from the general rate.

Nukumarū

The Nukumarū Water Supply is a non-potable supply managed by the consumers. In recent years they have constructed a bore and hold its resource consent, creating a mixed ownership of the assets. The consumers arrange the maintenance and the charging of the water by meter rate. No renewals of the Council-assets are planned in this Long Term Plan, as requested by the Nukumarū consumers committee.

Asset information

Asset Management Plans (AMPs) have been developed for activities that use physical assets in the delivery of services. The AMPs, which are the focus for running these activities, have been used in the preparation of financial forecasts in this Plan. The AMPs contain improvement plans

detailing how they will be developed further. They are dynamic documents and will be updated as required by the asset managers, with a formal review every three years.

Financial Reporting Standard 42: Prospective Financial Statements (FRS 42 Disclosures)

The Council has complied with FRS 42 in the preparation of these prospective financial statements. In accordance with PBE FRS 42, the following information is provided.

i. Description of the nature of the entity's current operation and its principal activities

The Council is a territorial local authority, as defined in the Local Government Act 2002. Its principal activities are outlined in this LTP.

ii. Purpose for which the Prospective Financial Statements are prepared

The Local Government Act 2002 requires us to present prospective financial statements that span ten years and include them within the LTP. This provides an opportunity for ratepayers and residents to review the Council's projected financial results and position. Prospective financial statements are revised annually to reflect updated assumptions and costs.

iii. Base for assumptions, risks and uncertainties

The financial information has been prepared on the basis of best estimate assumptions as to future events that the Council expects to take place. We have considered factors that may lead to a material difference between information in the prospective financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined in the LTP.

iv. Cautionary Note

The financial information is prospective. Actual results are likely to vary from the information presented, and the variations may be material. No actual events and transactions have been included in the prospective financial statements.