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Part 5: Financial policies and disclosures

Significant forecasting assumptions

Our 10 Year Plan and its supporting documents are based on assumptions for projected changes in our district. We are required to identify all of the significant forecasting assumptions, and the risks underlying the financial estimates (Schedule 10, LGA 2002).

All assumptions carry uncertainty. Where there is a high level of uncertainty, we must state why. An estimate of the potential effects on the financial assumptions must also be provided.

The level of uncertainty is determined by the likelihood of occurrence and the financial materiality. This means there will be a variation in the levels of reliability in the forecasting for our plan.

We have made a number of significant assumptions in preparations of the financial forecasts. The assumptions are based on industry advice and best practice.

- Financial information has been prepared on best estimate assumptions regarding the potential for future events, economic shifts, and the domestic and global economic climate.
- Forecast cost indices have been prepared on advice from Business and Economic Research Limited (BERL) who forecast price level change indices adjustors for councils to use in long-term plans. These are used for both operating and capital budgets, based on a medium term view.
- Other assumptions have considered information from Statistics New Zealand, .id, and Infometrics.

Our significant forecasting assumptions ensure there is a consistent and justifiable basis for the preparation of our 10 year plan.

Summary of assumptions

Assumption		Confidence level	Risk level
General assumptions			
1	Population change	Medium	Low
2	Household change	Medium	Low
3	Demographic change	Medium	Low
4	Three Waters Reform	High	Medium
5	Legislative and political changes	High	High
6	Natural hazards and emergency events	Medium	Medium - high
7	Climate change	Medium - high	Medium
8	CCOs and shareholdings	Medium - high	Medium
9	Council-held resource consents	Medium	Low
10	Levels of service	Medium	Medium - high
11	Availability of contractors and materials	Medium	Medium - high
12	Strategic assets	High	Medium - high
13	Development contributions	High	Low
14	Economic environment	Medium	Medium
15	Capital expenditure	Medium	Medium - high
Financial assumptions			
1	Price level changes / inflation	High	Low
2	Depreciation rates on planned asset acquisitions	High	Low
3	External borrowing	High	Low
4	New Zealand Transport Agency funding	Medium - high	Low - medium
5	Ashburton second urban bridge funding	Low	High
6	Interest rate variations	High	Medium
7	Useful life of infrastructure assets & funding	Medium	Medium
8	Income from investments	Medium	Medium

Confidence level

The level of confidence for each assumption refers to the difficulty of predicting outcomes because of limited or inexact knowledge. Council cannot control all of the variables that affect future outcomes, such as the wider economy and changes in legislation.

Low – Council has some of the information on the assumption but there is a high likelihood that variables outside of Council's control will impact on the accuracy of the assumption.

Medium - Council has most of the information available on the assumption but variables outside of Council's control may still affect the accuracy of the assumption.

High – Information available to Council point to a high likelihood of the assumption being accurate and/or most of the variables are under Council's control.

Risk level

The risk level of each assumption refers to the likelihood or magnitude of effect if the assumption is not correct.

Low – Council considers that the risk is unlikely to happen and that it would not cause a serious issue for Council activities or services.

Medium – Council considers that there is a likelihood that the risk were to happen and that it would have some effect on Council activities or services.

High - There is a high likelihood that the risk will happen and that it will effect Council activities or services.

General assumptions

1. Population change

Assumption

Our projected population change is used to inform decision-making and planning, particularly for asset management. Due to the delay from Statistics New Zealand with the 2018 data, these projections developed by .id are based on the 2013 Census data. Information such as historical trends, resource consent numbers and factors that affect population change such as suburb life cycle were incorporated into the modelling for the projections.

Between 2013 and 2048, the population for our district is forecast to increase by 11,009 persons (33.9% growth), at an average annual change of 1.0%. The following table is based on the statistical areas used by Statistics New Zealand and does not necessarily align with our rating boundaries.

	Actual[1]		Forecast population figures					
	2013	2018	2021	2031	2041	2048	Total change from 2013	Avg. annual growth 2013-48
Ashburton District	32,440	33,423	35,779	38,620	41,423	43,449	+11,009	+1.0%
Ashburton (incl Lake Hood)	19,251	19,284	21,319	23,027	24,556	25,728	+6,477	+1.0%
Methven	1,753	1,779	1,941	2,101	2,290	2,411	+658	+1.1%
Rakaia	1,174	1,440[2]	1,178	1,184	1,203	1,221	+47	+0.1%
Rural	10,262	10,923	11,341	12,308	13,373	14,089	+3,827	+1.1%

Source: .id demographic resources https://forecast.idnz.co.nz/ashburton-nz/population-summary?WebID=160&themtype=ChangeY1Y3&CustomAgeFrom=0&CustomAgeTo=85

Confidence level

Medium

Consequence of variation of assumption

Any significant or sustained decline in population growth will affect the ability to set rates at an affordable level. Conversely, any significant or sustained increase above the projections could impact our ability to provide our services at the levels expected by the community, such as through pressure on regulatory services to process resource and building consents and more demand for new infrastructure.

Risk

Population change across the district occurs at a higher or lower rate than expected. It is forecast that our population change will be mainly driven by births and deaths rather than migration as we have seen in the past. Therefore, there is only a low-risk that the Covid-19 pandemic will

Risk level

Low

[1] The 2013 and 2018 figures are the usually resident population taken from the 2013 and 2018 Census's respectively. All other columns in the table are forecasts based off the 2013 data.
[2] The increase in population above the rate forecasted for Rakaia between 2013 and 2018 can be explained by a boundary change increasing the area defined as Rakaia.

alter the projections.	

Approach to mitigation of risk

We obtain robust data from .id demographic resources, Statistics NZ and Infometrics, and monitor population growth regularly, making adjustments to service delivery or rates through annual plans if necessary. Any additional infrastructure (or infrastructure capacity) due to growth can be funded through development contributions, but costs over these amounts would have to be funded by debt.

2. Household change (including residential growth)

Assumption

Confidence level

Medium

Analysing the future household structure in our district, especially in conjunction with age structure, provides insight into the housing market. Some areas, usually with separate housing stock, are dominated by families. Others, with more dense housing in urban locations have significant numbers of single-person households and couples without dependents.

.id have modelled the projected change to households in our district, using data from the 2013 Census. It is forecast that the average household size will fall from a projected 2.50 in 2021 to 2.47 by 2031. Combined with the projected increase in population, it is forecast that the number of dwellings in our district will grow from 15,190 in 2021 to 16,520 in 2031.

2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
14,369	14,513	14,653	14,785	14,911	15,034	15,156	15,729	15,402	15,525

Source: .id demographic resources Population, households and dwellings | Ashburton District Council | Population forecast (idnz.co.nz)

Consequence of variation of assumption

A slower rate of household growth may mean some activities have overinvested in infrastructure (having too much capacity too soon).

Risk

Household change across the district occurs at a higher or lower rate than expected.

Risk level

Low

Approach to mitigation of risk

Council will continue its monitoring of household change in the district. Existing infrastructure is being managed to address specific growth factors associated with an activity (i.e. traffic demand or wastewater connections) which may be generated from an increase in the number of households. Additional infrastructure (or infrastructure capacity) due to growth can be funded through development contributions.

3. Demographic change (including population age and cultural diversification)	
Assumption Knowledge of how the age and ethnic structure of the population is changing is essential for planning age-based and culturally appropriate facilities and services, such as recreation spaces and places. The age group projections are based on the current age of the population (adjusted for people aging each year, being born and dying) as well as the age of people migrating into and out of the area. This in turn is driven by location (urban, small town or rural) of the existing housing stock (separate dwellings, medium or high density), the amount and type of new residential development (same as existing stock, or diversifying) and where the area is in a cycle of change. Our district is aging; 21.7% of our population is projected to be 65 years and over by 2048 – this equates to an additional 2832 persons in the 65+ age group, or a 43% increase from the forecasted figure for 2021. The largest five-year age group in our district is the 5 to 9 year olds, accounting for 7.2% of the total population. In 2048, it is projected they will be the largest age group, although reducing to 6.8% of the total population, or 2950 people. The ethnic diversity of our district continues to grow, with a 110% projected increase by 2038 for Māori (an additional 2,730 people), 139% for Asian (1,940 additional people) and 147% for Pasifika (an additional 1,700 people). Europeans will still be the largest ethnic group, but the percentage of total population will change from 89% in 2013 to 82% in 2038. This data is based on the 2013 Census as projections using the 2018 Census as the base are not expected to be released until later in 2021. The biggest difference in the ethnic minorities is that the median age is much lower than Europeans. This means ethnic minorities are younger and will make up a larger percentage of the working age population and have higher birth rates. Asian migrants make up the highest projected increase in population through migration, with European migration projected to fall into negative figures by 2038. We have also seen an increase in the number people attending citizenship ceremonies from 45 people in 2010 to 201 in 2019.	**Confidence level** Medium
Consequence of variation of assumption Customer needs and demands will exceed what we can deliver for information and service delivery. This could increase costs as we adapt to the different needs and priorities of a changing community.	
Risk Demographic changes across the district occur at a higher or lower rate than expected.	**Risk level** Low
Approach to mitigation of risk Forecast demographic changes for an aging population have been projected for Canterbury for a number of years. Our district's population is aging, but not at the same pace as the rest of Canterbury. The effects of the changing demographics will be accommodated for by adapting or redirecting activity provision to meet needs where possible within reasonable costs.	

4. Three waters reform	
Assumption Over the past three years, central and local government have been looking for ways to overcome the challenges facing our water services – that is, drinking water, wastewater and stormwater – known as ‘three waters’. Both acknowledge that there are broader challenges facing local government and the communities that fund and rely on these services. In some parts of the country there has been underinvestment in three waters infrastructure and persistent affordability issues. Alongside this is the need for additional investment to meet improvements in freshwater quality outcomes, increase resilience to climate change and natural hazards, and enhance community well-being. The Government’s view is that current service delivery arrangements are no longer fit for purpose and that reform is required. In response to this, in 2018, the Drinking-Water Standards for New Zealand (DWSNZ) were updated. We have been working towards compliance over the last couple of years but there is still more to do. Some of our schemes require costly capital upgrades which we have budgeted for over the next few years. Overshadowing the DWSNZ, the Water Services Regulator Act 2020 established a new Crown entity, Taumata Arowai. The new entity will be responsible for administering and enforcing a new drinking water regulatory system. This is likely the greatest change in local government service delivery for many years. The government has stated it is their intention that our drinking water, wastewater and quite possibly stormwater assets and operations will pass to a new regional or multi-regional organisation that will be responsible for managing these water supplies and services. Put simply, we as Council, may no longer be delivering these activities on your behalf. The reforms are currently (at the time of writing this plan) voluntary, and all our assumptions and comments reflect that. It is at least possible that Central Government could alter the voluntary nature of the reforms and make them compulsory to ensure full compliance. We expect Government to make policy decisions relating to the reforms in late-2021. This will include decisions on the main design features, number, and boundaries of the new water entities. Our Council will be included in one of the entities but we will have the opportunity to ‘opt out’. While we are anticipating that there will be change to the ownership and delivery of three waters in the next ten years, we are not able to say with certainty what those changes will be. It is unlikely that this will be known until mid–late 2021. This LTP has been developed on the basis that it is business as usual for the delivery of three waters but that change is very likely over the mid-term (3-5 years).	**Confidence level** High
Consequence of variation of assumption Changes are required to be implemented more quickly than anticipated, and/or changes are mandatory rather than voluntary.	
Risk Legislation changes under urgency in Parliament that we must implement immediately	**Risk level** Medium
Approach to mitigation of risk Council is represented on the Water Reform Steering Committee.	

5. Legislative and political changes

Assumption	Confidence level
We are operating in an increasingly uncertain geo-political and economic environment, coupled with rising demands from residents and ratepayers for more transparency and openness. This makes the work of local authorities increasingly challenging at a time when the pressure is on to keep rates affordable. Local Government NZ commissioned Simpson Grierson to review the disparities between the RMA, LGA and LTMA. The overriding conclusion is councils have to work with outdated and ill-suited legislation and the recommendation was for more work to be done at central government level to address the disparities between these different Acts. Shifting responsibility between central government and local government is expected to continue over the next ten years with significant reform in the resource management space and the Ministerial Inquiry into the Future of Local Government examples of this. Our Long-Term Plan has been prepared based on the assumption that during this ten year cycle, there are likely to be changes in the delivery of Council functions, however without knowing the details of these changes, we are assuming business as usual for the delivery of our activities.	High

Consequence of variation of assumption

Most legislative changes are signalled with enough time for planning, if urgent legislation is passed then it could impact our ability to implement these changes and its service delivery.

Risk	Risk level
Legislation changes under urgency in Parliament that we must implement immediately.	Medium

Approach to mitigation of risk

Changes to any statute involving local government will have an impact on our functions and expenditure at different times. We will continue to monitor the nature of proposed change and degree of likely impact on our functions to inform any alteration needed.

We will submit on legislation where appropriate to encourage reduced or improved impacts on our operations and value for money for ratepayers. We will also continue to participate in the planning, development, revision, implementation, monitoring and reporting related to regional strategies and policies and to represent the district's interests and contribution to the region.

Where legislation requires review of our processes or staffing, we will seek to achieve the most efficient and cost effective way forward. Where legislation requires councils to provide additional services or increased levels of service, this may require cost recovery through increases to rates or user fees.

Any changes in political structure will occur via the representation review processes or through formal processes driven either by the community, Council or central government.

6. Natural hazards and emergency events	
Assumption Serious natural hazard (including flooding, erosion and drought) and civil defence emergencies such as the breach of the Alpine Fault or a pandemic, are events that can strike without warning. This long-term plan allows for the possibility of events affecting our district. GNS put the probability of the Alpine Fault rupturing in the next 50 years at around 30% and this is a key assumption of Council. We have assumed that the public health response to the Covid-19 pandemic will continue as an Elimination Strategy to stop chains of transmission and effectively contain imported cases from overseas at the border. We assume that a Covid-19 vaccine will be developed and distributed worldwide which will enable the opening of the borders within the next ten years.	**Confidence level** Medium
Consequence of variation of assumption Potentially natural hazard events (including flooding, erosion and drought) could occur more frequently and more severely as a result of climate change than projected in the short term. If the government can no longer achieve its Elimination Strategy for Covid-19, it is likely that our services, such as recreation services, would be impacted by reduced hours, restrictions on users or closure.	
Risk Natural hazard events (including flooding, erosion and drought) will increase over time. Covid-19 vaccine takes longer than anticipated.	**Risk level** Medium-High
Approach to mitigation of risk Council will strive to protect communities through its asset management, civil defence emergency management (CDEM), and district planning activities. Council's infrastructure planning takes into account the need to sustain extreme weather events. The CDEM planning for community resilience is focusing on community response plans throughout the district. There are less risks to Council's assets due to sea level rise as few structures are located along the coast, and there are very small communities located in hut settlements with evacuation plans in case of flooding. The District Plan takes into account any increased coastal hazards and other location specific climate hazards and extremes. This includes changing some infrastructure mechanisms such as the size of culverts in flood-prone areas. Council is also monitoring the geological science updates provided by GNS, such as Project AF8, which is a risk scenario-based earthquake response planning project focused on the Alpine Fault. Council is a member of the Local Authority Protection Programme Disaster Fund Trust (LAPP) and has a variety of insurance cover which would cover emergency works. Council also has a Disaster Relief Fund for the replacement of infrastructural assets excluding roading in the event of a natural disaster. Central government has a role in recovery after an emergency event. Council is well connected to the local community through its support of community groups and organisations. The Covid-19 lockdown saw Council partner with others to form the Covid-19 Economic Advisory Group and the Caring for Communities Welfare Recovery Group.	

7. Climate change	
Assumption We adopted our Climate Change Policy in 2019 which contains district-specific assumptions, in line with the IPCC scenario RCP 8.5. The greatest of these are those related to drought and the increased severity and frequency of extreme weather events. Extreme weather events represent a threat to people and property, including both public and private infrastructure. Flooding and storm damage is a major risk given the proximity of many urban settlements to rivers and waterways, and the risk that either the Rakaia or Rangitata River bridges are unable to be crossed, cutting off transportation links to other districts. Sea-level rise is less significant for Council-owned public infrastructure, as we have no assets in the area up to 1.5 metres above mean high water springs. There will be other public infrastructure, such as electricity supply infrastructure, in affected areas. Private infrastructure may also be affected, particularly the hut sites at Rangitata, Hakatere, and Rakaia.	**Confidence level** Medium-high (for 30 years) Medium-low (for 100 years)
Consequence of variation of assumption The impacts of climate change could occur more frequently and more severely as a result of extreme weather events than projected in the short term. As time goes on, there is increasing uncertainty in IPCC scenarios.	
Risk Infrastructure is not suitably adapted and ready for climate events – especially if predictions change, given the long life cycle of assets. Facilities and assets are not designed to withstand higher temperatures.	**Risk level** Medium
Approach to mitigation of risk We will strive to protect communities through its asset management, civil defence emergency management, and district planning activities. Our infrastructure planning takes into account the need to sustain extreme weather events. The CDEM planning for community resilience is focusing on community response plans throughout the district. There are less risks to our assets due to sea level rise as few structures are located along the coast, and there are very small communities located in hut settlements with evacuation plans in case of flooding. The District Plan takes into account any increased coastal hazards and other location specific climate hazards and extremes. This includes changing some infrastructure mechanisms such as the size of culverts in flood-prone areas by maintaining and improving our stormwater network. We are a member of the Local Authority Protection Programme Disaster Fund Trust (LAPP) which has a variety of insurance cover which would cover emergency works.	

8. CCOs and shareholdings	
Assumption We currently have one substantive Council Controlled Organisation (CCO), Ashburton Contracting Ltd. We are also a 3% shareholder in Transwaste Canterbury. We have shareholdings in a number of entities including (but not limited to) Ashburton Community Water Trust, Eastfields Investments Ltd, Electricity Ashburton, and the Rangitata Diversion Race Management Ltd. The assumption is that we will retain the majority of these CCOs and existing shareholdings, subject to its periodic assessment of returns to ensure they outweigh the risks inherent with investing in these activities in accordance with the LGA (specifically section 17A). There is the potential for	**Confidence level** Medium - high

new CCOs to be established during the course of the LTP based on the assumption that during this ten year cycle, water reform is likely.	
Consequence of variation of assumption The establishment of new CCOs to provide core services will impact us. There could be costs associated with setting these up as well as changes to the delegations of service provision, and changes to the organisational structure for those current internal teams providing the services.	
Risk New legislation may enable the government to establish CCOs or force councils to have joint ventures for some core services such as water and transportation. Early indications suggest that this is not likely, but it is still a possibility.	**Risk level** Medium
Approach to mitigation of risk We receive Board reports on a quarterly basis from the CCOs and annual reports from shareholding entities to monitor our investments. The Local Government Act 2002 requires Council to review our investment arrangements periodically under Section 14(fa)(i & ii).	

9. Council-held resource consents for operational activity	
Assumption New resource consents will be obtained with appropriate conditions, and expiring resource consents will be renewed with similar conditions during the period of the Long-Term Plan. Resource consents due for renewal can be found within the relevant Activity Management Plan for individual activities. For the purpose of this assumption, a significant consent is that which impacts at a scheme level. Two significant resource consent renewals fall within this LTP cycle, specifically the Hinds and Montalto water supply consents in 2030.	**Confidence level** Medium
Consequence of variation of assumption The non-granting or non-renewal of a major resource consent for one of our activities would have significant impacts on costs and the ability to provide that activity. A major non-renewal may mean an entirely new approach to the activity would be required. Non-granting of resource consents may delay project benefits.	
Risk A resource consent is not obtained or renewed, or conditions imposed are unacceptable.	**Risk level** Low
Approach to mitigation of risk Appropriate planning for resource consent applications/renewals should ensure that they are obtained. Existing monitoring of compliance with existing resource consent conditions will provide a record of compliance for future processes. The renewal of consents is dependent upon the legislative and environmental standards and expectations that exist at that time.	

10. Levels of service

Assumption	Confidence level
Our assumption is that the level of service provided by our activities and services to our community do not significantly change. Demand for our services and customer expectations regarding business as usual levels of service will not change significantly and there will be not significant effect on asset requirements or operating expenditure beyond what is specifically planned and identified in the LTP.	Medium

Consequence of variation of assumption

Increased or improved service levels inevitably require additional cost and/or resources to provide them.

Risk	Risk level
Significantly enhanced service levels are demanded by the community or imposed by the government on councils in one or more area of activity.	Medium - high

Approach to mitigation of risk

We have well defined service levels for our planned activities which have been reviewed as part of the LTP process.

Resident satisfaction surveys and other engagement strategies generally support the key assumptions made in the LTP and there are currently no known additional areas of our services that require significant modification. Minor changes may be made to service levels where budget, contracts and resources allow. These will generally occur within existing budgets.

Major changes in service levels would be considered significant under our Community Engagement Policy and would be discussed with the community via consultation.

11. Availability of contractors, adequate staffing, and other resources

Assumption	Confidence level
The asset planning for this LTP is based on the assumption that contractors and materials will be available to undertake the work required to agreed standards and deadlines. There is likely to be increased pressure on engineering resources (people and plant) due to the government's enhanced infrastructure programmes, and the reduced availability of overseas assistance, which will likely result in rising costs. Staff recruitment and retention to get the best candidates with suitable skills and qualifications will continue.	Medium

Consequence of variation of assumption

Might increase cost and/or delay projects.

Risk	Risk level
Projects could be delayed if there is a shortage of contractors, Council staff, or resources. Additionally, if contractors do not deliver to agreed standards, cost and timeframes, project completion times could be extended and deadlines missed.	Medium – high

Approach to mitigation of risk

Our Procurement Policy aims to protect Council when contracting for major projects through a robust tendering process. Where possible, we aim to spread projects amongst different providers and ensure robust contracts are in place.

Recruitment, retention and remuneration are core priorities for People & Capability, to ensure we are well resourced to maintain the levels of service required to meet the needs of our community. Annual performance reviews and salary benchmarking through Strategic Pay ensures we remain competitive in the employment market to help retain staff.

12. Strategic assets

Assumption	Confidence level
We have a number of strategic assets including land parcels, buildings, and infrastructure assets. These are listed in our Community Engagement Policy. It is assumed that we will remain involved in all activities involving strategic assets and continue to own and control all our strategic assets for the duration of the Long-Term Plan. The details of the water reform are not expected to be finalised before we adopt this ten year plan, therefore we have prepared for business as usual.	High

Consequence of variation of assumption

Changes in control or ownership of strategic assets will likely affect the level of service provided to our community.

Risk	Risk level
Changes in control or ownership of strategic assets are required.	Medium – high

Approach to mitigation of risk

Changes in control or ownership of strategic assets must occur as part of an LTP development or amendment, with a full Special Consultative Procedure process required.

13. Development contributions

Assumption	Confidence level
Development contributions have been budgeted based on the population growth projections indicated in section 1 of the Significant Forecasting Assumptions.	High

Consequence of variation of assumption

Higher growth rates could create the need for additional infrastructure or bringing capital projects forward. Lower growth rates could result in under-utilised facilities or the need to delay some capital projects.

Risk	**Risk level**
Growth is higher or lower than projected.	Low

Approach to mitigation of risk

Given past demand growth for infrastructure, it is considered the estimated revenue from development contributions is realistic.

Most infrastructure projects are able to be adjusted in terms of scale and timing if required, as the percentage of project funding from DCs is relatively small.

14. Economic environment

Assumption	**Confidence level**
The effects of the Covid-19 pandemic on the local economy have not been significant to date. Latest data from Infometrics[3] shows that the district's economy contracted slightly over the past year, with Infometrics provisional GDP estimates showing a decline of 1.7% ($2,318 million – 2019 prices) in the year to September 2020, ahead of the national decline of 3.3% and the Canterbury region of 3.2%. House prices have appreciated by 6.6% over the past year, faster than Canterbury but behind New Zealand overall, however with a median house price of $375,950 this is still notably lower than Canterbury and New Zealand as a whole. Covid-19 is having a substantial impact on the global economy with reduced trade and tourism around the world. With a rurally dominated community it is expected that our agriculture sector will be a source of strength for our local economy the as we move through the Covid-19 recession. While the local economy is looking to remain reasonably stable, the increasing difficulty to import goods and skilled labourers into New Zealand may impact the delivery of services and therefore the local economy. The impact of the implementation of new or known changes to regulation on our local economy and community, such as the recently released National Policy Statements on Freshwater Management and Urban Development, are yet to be well understood. Technology changes will continue to advance and develop over the life of the LTP. Intrinsically linked with improving productivity output, skills, effectiveness, efficiency, and the financial bottom line, we won't achieve any of this without keeping pace with technological advancements.	Medium

Consequence of variation of assumption

The economy is hit harder by the recession than what is currently expected.
Internet connectivity for rural industry is not updated in line with technological advancements and services are not able to be carried out effectively.

Risk	**Risk level**
Our rural economy is not able to withstand the pressures from the Covid-19 pandemic recession and/or the impacts of NPS are more significant than expected. This could impact on the ability of the community to withstand rate increases, in turn effecting the levels of service we can provide.	Medium

[3] Infometrics Quarterly Economic Monitor 2020

Reliance on overseas markets is more substantial than assumed and this causes a major disruption in services and a significant impact on the economy.	
Approach to mitigation of risk Council is leading research into the impacts of the NPS – Freshwater Management and what comes next. This work is being considered by the Canterbury Mayoral Forum and will be used to advocate to government on behalf of the district. In 2020 Council resolved to 'procure locally' for at least 12 months in light of Covid-19 in order to boost the local economy.	

15. Capital expenditure	
Assumption Our capital works programme has been over-ambitious in the past therefore we need to focus on delivery for this Long-Term Plan. Council has carried forward significant capital expenditure from 2019/20 to the current year ($15.4 million) and plans to expend a further $43.3 million as part of the 2020/21 annual plan. This is a total of $59 million of capital expenditure and renewals. Council has also brought forward the Ashburton relief sewer project due to external funding from the Water Reform tranche 1 funding which is additional to the above. Where practical, the timing of major projects will be coordinated across council's activities to manage their impact on rates affordability. However, where there is an immediate need, or a regulatory deadline, this may not be possible. The strain on resources will require judicious decision-making when programming forward work.	**Confidence level** Medium
Consequence of variation of assumption Continued carry-forward of capital expenditure.	
Risk Infrastructure failure risk and expected services can't meet demand, reputational risk for not delivering planned capital projects on time.	**Risk level** Medium-high
Approach to mitigation of risk Council is establishing more robust business case processes to prioritise projects. This in turn will help to create a realistic work programme with appropriate and realistic project timelines.	

Financial assumptions

1. Price level changes / inflation

Assumption

For the first year of our plan (2021/22), all financial statements have been prepared using 2021 dollars. Price level adjustments for inflation have then been included in all financial statements for the following nine years.

Price level adjustments for the years 2022/23 onwards have been derived from forecasts prepared for Society of Local Government Managers (SOLGM) by Business and Economic Research Limited (BERL) and deal primarily with areas of expenditure that local authorities are exposed to through their business.

The capital inflation rate we use is the LGCI (Local Government Cost Index) capex category.

The operational inflation rates we use are a mixture of staff and LGCI (Local Government Cost Index) opex.

The inflation rate used in the prospective statement of financial position and cash flow is the LGCI total category.

Year ending June	LGCI total	Capex LGCI	Opex LGCI	LG salary & wages
2023	2.9	3.0	2.9	2.4
2024	2.5	2.6	2.5	1.5
2025	2.5	2.6	2.5	1.7
2026	2.5	2.7	2.5	2.0
2027	2.5	2.6	2.5	2.2
2028	2.6	2.8	2.6	2.3
2029	2.7	2.8	2.7	2.4
2030	2.7	2.9	2.7	2.6
2031	2.6	2.7	2.6	2.7

SOURCE: BERL SOLGM mid-scenario adjustors 2020; % change on previous year.

Confidence level

High

Consequence of variation of assumption

If costs vary greatly from what is projected, a higher or lower rate requirement will be needed.

Risk

Costs may change significantly to the forecasted rate.

Risk level

Low

Approach to mitigation of risk
We rely on the BERL price indicators which is the standard for local government. BERL reviews the inflation indices annually.

2. Depreciation rates on planned asset acquisitions

Assumption	**Confidence level**
It has been assumed that the estimates for the useful lives and associated depreciation rates for the major classes of assets are correct. Please see the Statement of Accounting Policy for more information.	High
Consequence of variation of assumption	
Asset condition deteriorates faster than expected or the capacity life of assets is utilised faster than expected. Either or both of these scenarios will result in us having to loan fund for cyclic renewals or asset replacement earlier than projected, which in turn may result in more debt incurred. If we opt not to loan fund the renewals or replacement, then rates could rise faster than forecast. Alternatively, if asset condition is better than expected or capacity life is longer than expected, the timing of asset renewal may be postponed and funding requirements deferred.	
Risk	**Risk level**
The estimates are incorrect and the assets useful life are longer or shorter than anticipated.	Low
Approach to mitigation of risk	
We will be required to replace or renew the asset earlier or later than anticipated. Replacement may incur costs earlier or later than budgeted. In addition asset values may need to be written off.	

3. External borrowing

Assumption	**Confidence level**
We can renew our current borrowing and access additional funding in the future. Generally, loans are over a 25 year period.	High
Consequence of variation of assumption	
If we cannot renew our borrowing, then funding may need to be increased or capital or renewals delayed. If we reach our debt limit and cannot borrow any additional funding, this may result in either project delays, reduced levels of service, or increased funding requirements – or all three of these outcomes.	
Risk	**Risk level**
We may not be able to borrow to meet our requirements.	Low

Approach to mitigation of risk
We are well below our debt limit as we have had a policy of generally not borrowing for cyclic renewals or operating costs. We have achieved an AA + credit rating which allows us access to a wider range of lenders. We have bank loan facilities in place that are renewed two-yearly and are able to borrow through the wholesale market and the Local Government Funding Agency.

4. Waka Kotahi New Zealand Transport Agency funding

Assumption	**Confidence level**
The Financial Assistance Rate (FAR) received from the Waka Kotahi New Zealand Transport Agency for qualifying road works remains at 51% for the 2021-24 period. Future review will occur within the LTP cycle. We consider that it is extremely unlikely that a FAR increase would occur, but there is the unlikely possibility of a decrease within the next ten years. Waka Kotahi have signalled that there will be funding constraints in the 2021-24 NLTP. There has been an increase in demand for funding across a number of activities classes, and we expect there to be limited discretionary funding available for new activities. Projects will, as always, need to be prioritised and funded in accordance with meeting GPS outcomes. The Maintenance, Operations and Renewals (MOR) requests for Canterbury councils alone are over 30% higher for 2021-24 than they were in 2018-21. It is likely that there will be stricter rules for approval than in 2018-21 (based on GPS priorities in the main). We will not know for certain the Waka Kotahi funding approved for our district until after our 10 year plan is adopted due to the different timeframe for the Waka Kotahi budget process to the local government budgeting process.	Medium - high
Consequence of variation of assumption	
A reduced FAR would require either a reduction in programmed work, or an increase in the Council funding share. Programme reduction would result in a lower level of service or deferred work programmes, which would likely contribute to deterioration of the district's roading and footpath network. Increased Council share could require additional loans or reduction in other budgets.	
Risk	**Risk level**
The Waka Kotahi FAR changes over the life of our 10 year plan. An increased FAR would reduce Council share (if programmes remain the same) or allow an increase in programme scope/extent.	Low-medium
Approach to mitigation of risk	
There has been no indication the FAR will be reviewed in the coming 10 years. If it was, we could adjust the projected work programme to put in a lower level of service or delay projects. Given that roading continues to be an issue of focus for the community, it is unlikely that we will reduce our level of service, but may make rates adjustments to fund for higher levels of service.	

5. Ashburton second urban bridge funding

Assumption	Confidence level
We have included the Second Urban Bridge in the LTP, based on the assumption that we will contribute 20% of the costs with the remaining 80% to be sourced from the Waka Kotahi, whose current Financial Assistance Rate is projected at 51% for the 10 year LTP period, and the Provincial Growth Fund, administered by MBIE. If this funding does not eventuate, we will reconsider loan funding or rating to complete the project.	Low

Consequence of variation of assumption

Waka Kotahi may not provide the additional funding required to complete the work projected, or will reduce the FAR contribution level to be less than the 51% the LTP is based on, or we may be unsuccessful in our application to the Provincial Growth Fund. Either or both of these outcomes could result in a lower level of service or delay in the work programme, and may result in deterioration of the district's roading network.

Risk	Risk level
Waka Kotahi do not approve funding anything over and above the current FAR rate of 51% towards the Second Urban Bridge and/or we are not successful in securing funding from the Provincial Growth Fund.	High

Approach to mitigation of risk

There has been no indication from Waka Kotahi the FAR will differ for the Second Urban Bridge project than the standard 51% for roading, and while early conversations indicate that the project could be eligible for the PGF, this has not been approved. If this funding is not achieved, we will need to reconsider funding options, including if the balance could be loan-funded from within its existing debt limits.

6. Interest rates variations

Assumption	Confidence level
We use internal and external loan funding to pay for most capital expenditure. The level of internal borrowing as a ratio of total borrowing, will depend on cash reserves available, and any risk management approaches considered prudent at the time of raising loans. The interest rate on all loans over the coming ten years has been assumed to be 2.25%, in the middle of the forecast range. The interest rate received on cash investments is assumed to be 0.2 – 0.5% over the ten years as our fixed rate investments mature and are reinvested.	High

Consequence of variation of assumption

Increased rates will to some extent be offset by increased returns from interest-bearing investments. An additional 1% to interest rates for external borrowing would increase the cost of capital by $10,000 per year, per $1 million of loans. If our entire external debt was affected in this way it would add $500 - $600,000 in cost each year. Increased revenue from cash investments will help offset any increase in cost.

Risk	Risk level
Interest rates may increase significantly which increase our costs and rate requirement.	Medium

Approach to mitigation of risk
Our Treasury Management Policy contains interest rate risk management tools that will minimise, as far as possible, any adverse interest rate movements.

7. Useful life of infrastructure assets & funding

Assumption	Confidence level
Our asset data is reliable and complete to support sound planning and decision-making and assets do not require replacement significantly before, or after, they are forecast. The annual revaluation is assumed to be that of the local government price index derived from the BERL local government price adjusters. We have, over the term of the Long-Term Plan, set revenue levels sufficient to fully fund depreciation of our assets, unless stated otherwise. Funding the replacement of any individual asset will be from the following sources in order of priority: • Current year's operating surplus, including any cash arising from the funding of depreciation. • Prior year credit balances (for an activity funded from targeted rates this effectively represents unspent funds derived from funding depreciation – each account balance receives interest). • Loan funding the balance of the expenditure, with the loan term being the shorter of either 25 years (as described above) or the expected life of the asset. Depreciation is calculated based on the expected life of assets. This has been determined at the 'major' asset level rather than on a more detailed basis. For further information, please refer to the 'Statement of Accounting Policies', Revenue and Financing Policy, Financial Strategy and the 30 year Infrastructure Strategy.	Medium

Consequence of variation of assumption
The qualified asset valuers miscalculate the useful life of key assets, resulting in a need to renew or replace the asset faster than the depreciation funding allows for. We may have to increase our borrowings or rates to renew or replace the asset. Variations in depreciation funding available or BERL local government adjusters project a LGPI too low or too high.

Risk	Risk level
Asset useful life assumptions are incorrect, leading to either asset failure or premature asset replacement. If asset values vary from the forecasts this will also impact budgets.	Medium

Approach to mitigation of risk
Ongoing assessment of the quality of assets means this information is updated regularly and work programmes adjusted to minimise the chance of asset failure. Council has developed an Infrastructure Strategy detailing the level of investment needed to replace, renew or upgrade existing assets over the next 30 years.

8. Income from investments

Assumption We have a number of investments that return a dividend or cash contribution. This includes our investment in ACL, Transwaste, and commercial property, including the Ashburton Business Estate. Our expected return from these investments are budgeted in the LTP.	**Confidence level** Medium
Consequence of variation of assumption If income differs, this will affect the level of contribution able to offset the rate requirement.	
Risk Income from dividends may differ from what was projected due to performance of the investment.	**Risk level** Medium
Approach to mitigation of risk Any increase in the rate requirement due to reduced dividend levels is unlikely to be substantial, and if the shortfall is significant we would review our expenditure levels.	