

Significant forecasting assumptions

Meeting: Council Briefing
Date of meeting: 09 December 2020
Reporting officer: Paul Cresswell, Financial Planner

Purpose/Ngā whāinga

To update Council on the significant forecasting assumptions used in the preparation of the (Draft Long Term Plan) DLTP.

Context/Horopaki

The LTP is prepared to outline Council's proposed work programme for the next 10 years in its LTP and to identify infrastructure requirements for the following 20 years. Changes to Council's operating environment will occur, either through planned changes or in response to other unidentified factors. Council prepares its forecasts cognisant of known upcoming requirements (renewals, climate change, government direction) but also endeavours to take into account factors which may or may not eventuate. The significant forecasting assumptions provide guidance to readers as to how the plan has been prepared.

As Council might expect, assumptions for this LTP are influenced with the effects and potential future effects of Covid19.

Discussion/Ngā kōrerorero

Staff have contributed to the assumptions document in Attachment A. The broad range of assumptions included in Attachment A have varying effects on Council's plans. The impacts of inflation, growth, climate change management, community affordability is discussed below.

Inflation

Inflation factors are a key part of Council's financial plans. Each year a local government sector economist, BERL, prepares an analysis of where it sees inflation heading. Facing the fallout from Covid-19 has meant the methodology used this year is somewhat different to past analysis. Rather than a single set of factors, BERL have extended their guidance to the following 3 scenarios:

1. Stalled rebuild where GDP and employment grow more slowly.
2. BERL Mid.
3. Faster rebuild where GDP and employment grow more rapidly.

Guidance as to which scenario an individual council selects has been provided in BERL's analysis. From this guidance, KDC have chosen the faster rebuild scenario based on Kaipara being a fast-growing district with a high agricultural base and a somewhat limited exposure to the international tourism sector.

The difference between the faster rebuild scenario LGCI average for the 20-year window shown in Attachment A is 2.4%, the mid-range is 2.2% and for the stalled rebuild, 2.0%. The LGCI is an overall indicator. BERL's analysis provides further segmented detail based on various sectors including construction, roading, local government administration by way of example. These detailed rates are applied to the various activities of Council. While KDC prepares its LTP on its chosen assumption which are reflected in the LTP financial forecasts, at each AP, the inflation assumption is reassessed and adjusted to the prevailing conditions for that year so KDC is not restricted to the BERL assessment.

The 2020-2021 budgets have been prepared on expected costs next year. The 2020-2021 budgets consequently form the baseline with the BERL factors being applied from year 2 onwards.

Growth

Council engaged Infometrics to prepare population and household projections for the 30 years till 2051 for each of the Statistical Area level 2s (SA2s) in the Kaipara District. Understanding how and where the district is growing is vital to planning for its future. Growth areas were identified in the first instance and growth quantified before district planning processes directed the growth into appropriate forms for servicing infrastructure to be designed, costed and the cost allocation apportioned appropriately. These projections are used to inform Council's planning.

A link to Infometrics full report is provided in Attachment B.

Council's ratepayer growth numbers are yet to be completed and will be provided at a future briefing.

Climate change management

The Significant Forecasting Assumptions capture the risks summarised in Attachment C and explain each in more detail. The Significant Forecasting Assumptions also capture wider risks not listed above that will significantly impact residents and ratepayers and Council's financial processes. Climate change is considered throughout the assumptions because it impacts affordability and financial assumptions for asset management.

Affordability

Affordability remains a key component in the plan's preparation. Council will be aware that the financial forecasts have set rate increases to be within a range discussed in earlier LTP briefings, nominally around 6%. A number of additional initiatives are being offered to the community through Council's consultation. These initiatives were covered at the last LTP briefing including a solid waste recycling targeted rate and a more comprehensive response to climate change. The consultation document will include indicative impacts to rate increases should the community want Council to include any or all the initiatives. These initiatives, if included in the plan, would push Council's rate increases above that set through the Council briefings. This approach enables Council to keep rate increases to generally affordable levels but also providing the opportunity for the community to choose a greater service level with a commensurate change to the rates.

Next steps/E whaiake nei

The forecasting assumptions, on completion, will be provided to the next Council briefing and to the auditors for review.

Attachments/Ngā tapiritanga

	Title
A	Draft Significant Forecasting Assumptions
B	Population Projects 2018-2051 Kaipara District Council October 2020
C	Background to Climate Change Assumptions