

Significant Forecasting Assumptions

The preparation of a long-term plan requires the adoption of a number of assumptions about events and activities that the Council believes will reasonably occur over the life of the strategy.

The overarching assumptions used in preparing the Long-term Plan are that:

- There will be no significant growth in the population of the region over the Long-term Plan period;
- Economic growth of the region will fluctuate, reflecting the volatility of the tourism sector, the current economic uncertainty, and the nature of the extractive industries (e.g. mining and forestry) that the West Coast region relies on; and
- Growth in the rating base is not likely in the short term with the Department of Conservation, and other central government organisations, administering approximately 86% of the land in the region.
- The Council will continue to perform its existing functions in accordance with present legislation.
- The Council will continue to deliver functions and services in accordance with adopted policies, plans and operational strategies.

The following significant forecasting assumptions have been addressed due to the potential for them to materially impact upon the Council's overall revenue; operating expenditure; ability to finance and fund future operating and capital expenditure; strategic assets and ability to deliver intended levels of service.

Forecasting Assumption	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
Return on investments.	Investments do not return sufficient funds and general rates have to increase.	High	<p><u>Main Investment Fund</u> Returns of 6.00% have been budgeted for across the 10 year term of the LTP, for Council's main investment fund. Effect of uncertainty: An increase or decrease in returns of 1% would be + / - \$133,000</p> <p><u>Catastrophe Fund</u> Returns of 5.40% have been budgeted across the 10 year term of the LTP, for this conservative fund.</p> <p><u>Commercial Property Investment @ Rolleston</u> Council is budgeting on a 8.36% return on original cost of \$1.328 million (Market yield on revalued amount of \$2.327 million @ 30/6/23 = 4.77%) The assume growth in rental income is 5.75% and the appreciation of the market value is assumed to be 2.32%</p> <p><u>General Comment</u> All cash returns on investments are utilised to reduce the general rates for rate payers. Any significant shortfall in returns could result in increases to general rates.</p>
Vector Control Services Business Unit.	This Council business unit competes on a contestable basis for pest control contracts.	High	<p>It is uncertain what contracts might be won by the VCS business unit during the ten-year period. The budget expectations are partly based on historical achievements by the VCS Business Unit. If the VCS business unit cannot meet budgeted profit expectations, there may be a need by Council to increase general rates or cut back services.</p> <p>Effect of uncertainty: An increase or decrease of the core trading surplus of + / - 20% would amount to \$45,000</p>

Forecasting Assumption	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
New Rating Districts for Flood, Drainage and Coastal Protection.	Council may receive requests from communities to build new infrastructure or extend existing works. It is not possible to predict if and when these requests will occur.	High	<p>This Long-term Plan has been prepared based on maintaining existing infrastructure and building additional infrastructure as set out in the Plan. Council may and will receive further requests for protection schemes from time to time but has not predicted when this may occur. It is not possible to budget for such requests before they occur.</p> <p>Such requested new / extended infrastructure would be paid for by the affected community, usually funded by a loan and repaid by a targeted rate.</p> <p>Attention is also drawn to the Council's Revenue & Financing Policy, Financial Strategy and 30-year Infrastructure Strategy.</p>
Change to Functions	Change to Council functions could significantly increase costs	Medium	The statutory functions of Council under the Resource Management Act and Land Transport Management Act have been subject to significant change in recent years. The change in government in 2023 will result in further change with the repealing of various pieces of legislation. This Long-term Plan has been prepared in the current legislative environment. Change in any Council function will be undertaken when legislation changes.
Unforeseen environmental issues or resource management challenges.	New environmental issues requiring works that cannot be funded out of normal budgetary provisions.	Medium	The potential effect of any new environmental or resource management issues is dependent upon the scale, type, location and impact upon the environment of the issue. Each issue will be addressed on its merits and any funding requirement addressed in terms of the principles outlined in the Revenue and Financing Policy.
Council amalgamation proposals	Council amalgamation within the West Coast region is needed.	Medium	<p>The Long-term Plan has been prepared on the assumption that there will be close co-operation and continued investigation of aligned service opportunities among the four West Coast Councils (refer page 18).</p> <p>In 2018 the Local Government Commission initiated Governor General Order in Council mandated the West Coast Regional Council with the responsibility for preparing, approving and reviewing a combined district plan for the West Coast. This work is included in the Long-term Plan.</p>
Revaluation of River & Coastal Protection Infrastructure Assets	Movements in the value of the infrastructure assets might be greater or lesser than the estimates.	Low	Estimated future revaluations have been calculated using the BERL "Local Government Cost Index". The infrastructure asset revaluations are a function of contracting rates prevailing at the time of revaluation. Revaluations will occur every year @ 30 June. However, these revaluations have no funding impact.
Projected growth change factors	Increased population and economic activity pressures Council to increase its levels of service.	Low	No significant population increases are anticipated. The Statistics NZ population project forecasts only minimal increases in the regional population over the 10-year term of the Long-term Plan (32,400 in 2023 – 32,500 in 2033).
Cost changes	Inflation will increase costs to Council and there will be insufficient revenue.	Low	<p>Cost changes have been included in the financial projections. Cost changes are as per BERL estimates.</p> <p>Interest and depreciation expenses in this LTP have not had cost change inflation applied.</p> <p>Investment income in this LTP has not had cost change inflation applied.</p> <p>Index adopted</p>

Forecasting Assumption	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty	
			Year	Local Government Cost Index (published by BERL for SOLGM)
			2024/25	2.7%
			2025/26	2%
			2026/27	2.2%
			2027/28	2.2%
			2028/29	2.1%
			2029/30	2.1%
			2030/31	2%
			2031/32	2%
			2032/33	1.9%
			2033/34	1.9%
Borrowing rates	Borrowing rates could be higher than estimated.	Medium	Term borrowing is expected to be through Local Government Funding Agency and other commercial funders. The borrowing terms will be structured with various maturities and / or roll-overs to reduce the risk of interest rate volatility. The borrowing may be a mixture of fixed and floating contracts, as guided by Council's Investment and Borrowing Policy. Borrowing costs are estimated between 4.56% - 5.14% across the life of the Long-term Plan depending on the drawdown period and term of the loans.	
Significant natural or other hazard emergencies.	Emergencies require work that cannot be funded out of normal budgetary provision.	Low	<p>The potential effect of a natural disaster on the Council's financial position is dependent upon the scale, duration and location of the event.</p> <p>Central Government will refund most of the direct welfare costs of major emergency events.</p> <p>Our river, drainage and coastal protection infrastructure assets are insured through a combination of Central Government 60% and commercial insurers 40%.</p> <p>The Central Government excess is 0.002% of rateable capital value across the region.</p> <p>The commercial insurers excess is \$1,000,000 for a flood event and \$500,000 for any other event.</p> <p>Council has rating district prudent reserves and a catastrophe reserve to mitigate the financial impact of an event.</p>	
General Rate Increases	The general rate requirement might exceed that forecast in the Long-term plan	High	There is a risk that major court appeals on plans under the Resource Management Act (RMA) could result in additional costs. This could result in a further general rate increase. Council is undertaking reviews across the suite of its RMA plans during this Long-term Plan.	
Climate change	Climate Change has an impact on the likelihood and severity of weather events.	Low	Council stopbanks and seawall structures have been designed to allow for raising when appropriate and necessary. Council is cautious to not incur unnecessary cost by overdesign or by prematurely adding mitigation until it is evident that it is required. Council continues to monitor actual events and climate change predictions and will respond accordingly. Refer also to the Infrastructure Strategy.	
Climate Change	Climate change has an impact to raise the sea level.	Low	Sea level rise will be incremental during the period of this strategy and Council will plan and respond as the predictions take effect and begin to impact on our assets. Refer also to the Infrastructure Strategy.	

Forecasting Assumption	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
Capex do-ability	The forecast capital expenditure may not be able to be completed within the predicted timeframes.	High	<p>The following factors could have an impact on Council’s ability to complete its capital expenditure projects in the set timeframes:</p> <ul style="list-style-type: none"> - Delays in receiving resource consent. - Adverse weather event that delays the project or requires the reallocation of resources. - Inability to procure the appropriate contracted services. <p>Council considers the likelihood of the above factors having a significant impact on the capital expenditure as medium. Council has, and will be, recruiting additional engineering capability to assist with mitigating these risks. The financial impact of a significant delay could push the transactions into subsequent accounting periods.</p>
Capex do-ability resourcing	The forecast capital expenditure may not be able to be completed within the predicted timeframes.	High	<p>Council is confident that it will have the capacity required in-house, and will be able to source the appropriate external capacity, to achieve the proposed capital works programme. To ensure that Council can plan ahead in areas that require resource consents, professional contractors will be engaged and overseen by project managers. There is always a risk that the people needed will not be available when required. This can lead to delays in completing projects. This is managed by including timing expectations in respective procurement processes and maintaining regular and early communication with contractors so that plans can be adjusted and the risk of delays reduced.</p>
Asset condition	Council has incomplete asset condition information leading to uncertainty over the timing for maintenance and renewals.	High	<p>The assumption has been made that Council has low quality or incomplete asset condition knowledge and this could lead to poor infrastructure capital decision making. It could also lead to poor maintenance planning assumptions or incorrect timing of renewal capital works. Council is committed to improving knowledge of its asset conditions through both process and technological improvements within the next two years and increasing professional asset management capability and capacity within the organisation.</p> <p>A further assumption has been made that all assets will deliver the required level of service over their documented useful life. However, incomplete asset information could allow critical asset failures before they are scheduled for planned maintenance and renewal and could lead to loss of service for a period of time. Where this loss of service is found to be the case, Council will consult with communities around what the affordable levels of service will be in the future. It is likely that any conversation of this nature would result in a decrease in service levels without significant reinvestment requirements.</p>
Westport flood protection work programmes	The funding may not be received.	Low	<p>Council has formal agreements with central government funding agencies. Council expects that the required funding will be received.</p>
Westport flood protection work programmes	Council may not be able to complete the work on time, within budget and / or in accordance with the conditions of the Agreement.	Med	<p>Council generally expects to be able to procure the services required to complete the work on time, within budget and in accordance with the conditions of the Agreement. The budgets and timelines have been set based on Council’s experience and historical knowledge of work of this nature. Council has, and will</p>

Forecasting Assumption	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty	
			be, recruiting additional engineering capability to assist with mitigating these risks.	
Forecasting effectiveness	Forecasting of budgets may not always match actual requirements in future years.	High	Forecasting of Council budgets was undertaken with the information available up to March 2024. There is always a risk of unplanned work arising or external factors influencing the funding requirements of Council. No allowance has been made in Council's budgets for these factors which are unknown at the time of preparing the Long-term Plan.	
Future for Local Government Review	Possible changes to the structure and function of Local Government	Low	On 23 April 2021 the Minister of Local Government announced a Ministerial Inquiry into the Future for Local Government. The overall purpose of the review is to "identify how our system of local democracy needs to evolve over the next 30 years, to improve the well-being of New Zealand communities and the environment, and actively embody the treaty partnership." The final report was published in June 2023. While the outcomes of the review could recommend significant change to what local government is and does, there is no information available on the likely direction at this time. Council has prepared the Long-term Plan on the assumption its existing role and functions will continue for the life of the plan (refer page 18 for more information).	
Wage Growth	To attract and retain staff higher wage increases may be required.	Low	Currently it is assumed that wages increase at 1% above inflation each year. This means that an additional 1% is added to the BERL inflation estimates to provide the wage growth for the roles required over the Long-term Plan.	
Debt Funded CAPEX	The terms of the loans drawn down may not match those in the LTP.	Low	All CAPEX over the length of the Long-term Plan is assumed to be funded by debt with the terms of the loans matching the useful life of the assets. This has the effect of smooth the rating impact of acquiring the new assets over the time the rate payers are receiving the benefit.	
Existing Debt	The feasibility and costs of renewing existing debt may differ from reality.	Low	All existing debt assumed to be on the Council's balance sheet at the beginning of the Long-term Plan is assumed to be renewed when the loans mature.	
TTPP Debt Funded	The costs of funding the debt associated with TTPP may be higher.	Low	To ensure that the rating impact of the expenditure related to Te Tai o Poutini Plan (TTPP) does not hit the related communities drastically at the beginning of the Long-term Plan debt is being drawn down to smooth the rating impact over time.	
Asset Revaluation Assumptions	The asset values may fluctuate at rates not reflected by the assumptions.	Med	Asset revaluations have been included in the financial projections. The revaluations are as per BERL estimates. Depreciation recognised reflects the revalued carry amounts of the assets. Index adopted	
			Year	Local Government Cost Index (published by BERL for SOLGM)
			2024/25	3.5%
			2025/26	1.9%
			2026/27	2.6%
			2027/28	2.7%
2028/29	2.6%			
2029/30	2.5%			

Forecasting Assumption	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty	
			2030/31	2.4%
			2031/32	2.4%
			2032/33	2.3%
			2033/34	2.3%