

# Draft 2024-34 Assumptions, Disclosure and Compliance

## Assumptions

With any financial forecasting, several assumptions must be made. The following assumptions have been made in the preparation of this document. Also presented for each assumption is the “Level of uncertainty”, “Risk” and “Financial impact” for each. Assumptions have been made on the following:

- Legislation
- Inflation
- Interest rate on Council borrowings
- Population growth
- Climate change
- COVID -19
- Subsidy rates
- Natural disasters
- Taxation framework
- Asset ownership and valuation
- Sources of funds for capital expenditure
- Resource consents
- Capital Expenditure
- Economic life of assets
- Emissions trading scheme
- Port Marlborough NZ Ltd dividends
- Waitohi Picton Ferry Precinct Redevelopment

## Legislation

### Assumption

Local Government could be significantly affected by changes in legislation as a result of the new National Party led Government being elected in October 2023. As a result, it is likely that changes in direction will occur, especially in the areas of the environment and RMA reform and the delivery of the Three Waters. However, there are high levels of uncertainty on the exact path government will take and the implementation requirements and impacts on Council. As a result of this uncertainty, the consequential financial impacts on Council cannot be quantified with certainty yet. Therefore, it is assumed that legislative and Government policy changes will not significantly impact upon Council’s current responsibilities and activities for the purposes of this LTP as suggested in guidance from Government and the Taituarā (formerly the Society of Local Government Managers - SOLGM), especially in regard to the Three Waters.

The potential changes in direction by Government may provide an opportunity for Council to undertake a slight pause, while the new Government finalises its direction, as the pace of reform under the previous Government was very high.

### Level of uncertainty

High.

### Risk

It is highly likely that the new Government will want to advance its agenda. As a result of local government having a very broad range of activities it is also very probable the cumulative effect on Council will be significant.

### Financial impact

To date Government’s reforms have not reduced legislative obligations, costs or the impact on the ratepayer. It is too early to assess the likely financial impact of the Government’s expected policy announcements. However, it is expected that there will be specific requirements resulting from National Policy Statements and legislative change, to undo the currently legislated changes including for delivering the “Three Waters” in response to the Havelock North Water Quality Inquiry. It should be noted that Council has already moved to address many of the recommendations of the Havelock North Inquiry in its infrastructure planning.

## Infrastructure impact

Upon recommendation from Central Government, whilst changes will occur with the impending Three Waters Reform, we are continuing to do all Long Term Planning as per the status quo.

Civil engineering labour, plant and materials have already been in high demand in New Zealand. Current procurement costs are already high and timing on projects is somewhat dictated by the availability of contractors.

Significant changes in national standards or deadlines for compliance with statutory requirements may accelerate the delivery of specific capital projects accordingly.

## Inflation

### Assumption

The costs, revenues and asset values reflected in this plan reflect the following "Forecasts of Price Level Change Adjustors to 2034" produced by Business Economic Research Limited (BERL) in October 2023 for the Society of Local Government Managers. Normally only the years relating to the current LTP are included in the table below, in this LTP the previous three years have also been included to highlight the recent high inflation.

Label Year Ending	Planning and Regulation	Roading	Salary & Wages L/Govt	Community Activities	Water and Environmental
<b>% change on year earlier</b>					
June 2020	1.3	1.1	2.1	1.5	2.3
June 2021	2.5	1.0	1.1	1.6	2.8
June 2022	7.3	7.6	3.3	6.5	9.3
June 2023	5.0	4.8	5.1	4.3	5.5
June 2024	3.4	3.8	2.8	3.5	5.0

Label Year Ending	Planning and Regulation	Roading	Salary & Wages L/Govt	Community Activities	Water and Environmental
<b>% change on year earlier</b>					
June 2025	2.6	2.9	2.4	2.7	3.6
June 2026	2.1	2.0	2.2	2.0	2.5
June 2027	2.2	2.3	2.1	2.2	2.7
June 2028	2.1	2.3	2.1	2.2	2.6
June 2029	2.0	2.2	2.0	2.1	2.5
June 2030	1.9	2.1	1.9	2.0	2.3
June 2031	1.9	2.0	1.9	1.9	2.3
June 2032	1.9	2.0	1.9	1.9	2.2
June 2033	1.8	2.0	1.8	1.9	2.1
June 2034	1.8	1.9	1.8	1.8	2.1
20 year average % pa	2.4	2.6	2.2	2.4	3.1

BERL also consolidates the above adjustors into a consolidated Local Government Cost Index (LGCI) which is further split between operating and capital expenditure.

Year ending	OPEX	CAPEX	TOTAL
	<b>annual average % change</b>		
June 2020	1.5	1.6	1.6
June 2021	2.3	2.3	2.3
June 2022	7.6	7.8	7.7

Year ending	OPEX	CAPEX	TOTAL
	annual average % change		
June 2023	4.9	5.0	5.0
June 2024	3.8	4.0	3.9
June 2025	2.9	3.0	2.9
June 2026	2.2	2.2	2.2
June 2027	2.3	2.4	2.3
June 2028	2.3	2.3	2.3
June 2029	2.2	2.2	2.2
June 2030	2.1	2.1	2.1
June 2031	2.0	2.1	2.0
June 2032	2.0	2.0	2.0
June 2033	1.9	2.0	1.9
June 2034	1.9	1.9	1.9
20 year average % pa	2.6	2.7	2.6

### Level of uncertainty

Medium to high.

### Risk

There is a risk that the local inflation rates may be higher or lower than the national averages forecast by BERL.

### Financial impact

If inflation is higher than that predicted by BERL, it will increase the costs of maintaining existing levels of service and the cost of capital projects which will place pressure on rates. It will also increase debt and potentially put pressure on Council credit rating unless capital projects are deferred.

If inflation is lower than predicted by BERL, the opposite to the above will occur. A 1% variation on what has projected will result in an approximate 1% variation in rates.

### Infrastructure impact

Deferral of capital projects which may impact upon the level of service that can be provided.

### Interest rate on Council borrowings

#### Assumption

Council has assumed a long term interest rate on loans of 5.5% for the entire 10 years covered by the Long Term Plan. However, actual interest rates may vary depending on the term of the debt and prevailing market conditions.

### Level of uncertainty

Medium.

### Risk

As a result of continuing high inflation in New Zealand and internationally and the high interest rates used by Central Banks to bring it under control, the expectation of higher interest rates for longer remains.

However, there are signs that central banks are “winning” the war on inflation with the signalling of further increases reducing in terms of frequency and quantum. Council has adopted a conservative position compared to current market rates to mitigate the risk associated with interest rate movements. Council has also mitigated the impact of interest rate rises with a prudent hedging programme that operates in accordance with its Treasury Policy.

### Financial impact

Increases in interest rates above 5.5% will result in higher debt servicing costs and rates funding requirements. Council only debt (internal and external) is currently forecast to peak at approximately \$290 million in 2031. As a result a 1% change in interest rates above the 5.5% forecast would result in changed interest costs of \$2.9 million.

## Infrastructure impact

Deferral of capital projects which may impact upon the level of service that can be provided.

## Population growth

### Assumption

In preparing the Long Term Plan Council has assumed, based on actual results, that population growth will occur above the 31 March 2021 Statistics New Zealand medium population growth projections. Population growth is further discussed in the Key Issues and Financial and Infrastructure Strategy sections of the Long Term Plan.

### Level of uncertainty

Low.

### Risks

If population growth occurs at a slower rate than forecast, then the level of development contributions received will be lower than expected. However, there is the opportunity to mitigate the financial impact by slowing the capital expenditure programme. It is not expected that levels of service will be impacted upon significantly.

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### Infrastructure impact

If the population declines, meeting the fixed costs (including operation and maintenance, depreciation, financing and insurance) of the infrastructure could place a significant burden on the remaining residents and businesses.

## COVID-19

### Assumption

That while the disease itself remains serious, it is assumed that through a combination of measures including awareness, vaccination and other preventative measures, COVID-19 will not have a significant on Marlborough.

### Level of uncertainty

Low.

### Risk

In the unlikely event that COVID-19 re-enters the community, the potential impact/risks for Marlborough are threefold, including:

1. the reinstatement of either Level 3 or 4. Reinstatement of level 3 or 4 could have significant impact on Marlborough's retail, tourism and hospitality sectors. Also, it could delay the completion of capital projects and Council's ability to deliver services.
2. Government closing the borders with the result that Marlborough's industries are unable to recruit the labour they need at critical times during the year. The consequence is that these industries are unable to produce their normal quantities of product.
3. The economies of Marlborough's trading partners suffer a significant downturn, resulting in a diminished market for Marlborough's product.

### Financial impact

Should the above risks manifest, this will have a significant impact on Marlborough's economy, resulting in reduced revenue to Council and the probability that Council will be called upon to provide support to the Community. The likelihood is that this will result in increased Council debt.

### Infrastructure impact

Delays in capital works projects due to future lockdowns are unknown but provided they are short in duration, cause little upset to the final delivery schedule. The delays in receiving parts and equipment from overseas however does have a significant impact on delivery. Large lead times on specific infrastructure can be overcome with suitable planning, however this also changes the procurement process on specific projects therefore reducing opportunities for innovation and removing a degree of competition in the tendering the process.

Aside from these delays affecting the capital programme, should unforeseen asset failure occur prior to the planning for replacement, there is also the risk of reduction to the level of service should asset failure occur before parts and equipment can be received.

## Subsidy rates

### Assumption

It is assumed that Council will retain, for the period of the Plan, its current subsidy rate of 51% for road maintenance and construction works and 71% for qualifying emergency works.

### Level of uncertainty

Low.

### Risk

Waka Kotahi will either reduce the subsidy rate and/or toughen the criteria for the inclusion of works in the qualifying programme.

### Financial impact

If the subsidy rate is reduced, either a reduction in the level of service or an increase in rates would be required. Council is already receiving very good pricing for road maintenance compared to other Local Authorities, through its collaboration with NZTA in the form of Marlborough Roads.

As a result of the Sounds Roads Recovery subsidy levels are expected to peak in 2025-26 at \$52 million, before returning to a more level of circa \$20M per annum. As a result a one percent variation in Financial Assistance Rate will generate a change between \$0.2 million and \$0.5 million which equates to 0.2% to 0.5% of 2024-25 rates.

### Infrastructure impact

If the subsidy rate is reduced, either a reduction in the level of service or an increase in rates would be required. Council is already receiving very good pricing for road maintenance compared to other Local Authorities, through its collaboration with NZTA in the form of Marlborough Roads.

## Natural disasters

### Assumption

Should a major natural disaster occur the District could be faced with significant repair and reconstruction costs. In 2017 Council estimated the maximum probable loss (MPL) cost as a result of a major earthquake, flood or tsunami at approximately \$485 million, following a joint Treasury supported exercise with AON and Tonkin and Taylor. Inflation adjusted this figure would now be approximately \$548 million (2021-22: \$535 million) at 30 June 2023.

Council has engaged Gallagher Re to update its catastrophe modelling, as part of a joint study with Nelson City and Tasman District Councils.

It is assumed that the resulting forecast will be accurate. It is also assumed that:

- Not all assets are likely to be impacted on one event, given their diverse nature and location.
- Immediate replacement of all damaged assets will not be required, immediately following an event.
- The forecast contributions from the Local Authority Protection Programme (LAPP), insurance, Government and Waka Kotahi will be received.
- Through a combination of Council's reserves, investment realisation, credit facilities and rescheduling capital and other works, Council can meet the remaining costs associated with a major disaster over a ten year period.
- As a result of a second earthquake occurring in Christchurch, Council has also modelled the financial impact of second significant event. Through the use of the same mechanisms identified in the two bullet points above, Council could meet the remaining costs associated with a second major disaster over a ten-year period post the second event.

The LAPP fund is a mutual pool set up to assist Councils cover their share of damage to "below ground" and river protection assets resulting from a significant natural event. At the time the fund was formed commercial insurance alternatives for these assets was not available. There was also a clear requirement from Central Government, and still is, that any assistance given to rebuild infrastructure following a disaster will only be made available if Council has made adequate financial provisions to cover its own repair obligations.

Above ground assets are insured through commercial insurance. These costs are in addition to LAPP contributions. Insurance costs have increased over recent

years as a direct result of national and international disasters. Council has mitigated the effect by joining with Nelson City and Tasman District Councils.

### Level of uncertainty

Low to medium.

### Risks

The actual costs of recovery from a major natural disaster are higher than the forecast Maximum Probable Loss (MPL) of approximately \$520 million.

### Financial impact

Should Council's current estimate of MPL and existing arrangements prove inadequate, either an increase in debt and corresponding increase in rates or a slowing in the rebuild would need to occur.

### Infrastructure impact

Significant disruption of service immediately and reduction in the level of service able to be provided for a reasonable length of time following an event dependant on the damage and extent of the event. High costs of emergency response, combined with the lead times and costs for parts and equipment from overseas exacerbate the situation.

## Taxation framework

### Assumption

Council has assumed that the existing taxation framework for the Marlborough District Council group will continue for the period of the Long Term Plan.

### Level of uncertainty

Low.

### Risks

That the Inland Revenue Department takes the view that Council has used an incorrect tax treatment for any of its activities. Council, while being generally exempt from Income Tax, is taxable on income received from subsidiaries. Council also has to account for GST, FBT, Withholding Tax and PAYE.

To mitigate this risk, Council seeks advice from PricewaterhouseCoopers (PWC) and obtains legal opinions and IRD Binding Rulings where appropriate. Every three years Council also requests PWC to undertake a review of its taxation activities. The last review was in December 2023 with the resulting recommendations implemented.

### Financial impact

The likely Financial impact is low, because of the steps Council takes to mitigate its risks.

## Asset ownership and valuation

### Assumption

In the preparation of the Long Term Plan it has been assumed that Council will retain:

- Ownership of its core assets, i.e., roads, water, sewerage, stormwater, river protection, community facilities and senior housing
- Ownership of MDC Holdings Limited and its subsidiaries; and
- Its ownership share (88.5%) in Marlborough Regional Forestry, with Kaikoura District Council owning the remaining 11.5%.

It has also been assumed that Council will either revalue, or fair value adjust its major assets annually.

### Level of uncertainty

Low to medium

### Risk

The asset values shown in the Long Term Plan have been adjusted based on the BERL indices. The risk is that the results of actual revaluations may be higher or lower than those disclosed in the Long Term Plan. To mitigate this risk, Council has recently completed external valuations for its core assets, roads, water, sewerage, stormwater and river protection.

### Financial impact

The external valuations for the Three Waters assets increased asset values by \$260 million and required depreciation by \$13.8 million. Council is proposing to

fully fund this additional depreciation by a progressive increase in rates of \$1.7 million per year over the 2026-27 to 2033-34 period. It is considered that the latest external valuations are at the higher end of the range and that future uplifts of valuations of this magnitude are unlikely. However, if that view proves incorrect, Council will most likely look to phase in any depreciation increase.

### Infrastructure impact

Upon recommendation from Taituarā, whilst changes will occur with the impending Three Waters Reform, we are continuing to do all long term planning as per the status quo. With this in mind, should the valuation increase occur due to higher than anticipated replacement rates, the increased cost in delivery of the capital budget may require projects to be deferred and non-critical assets to be 'sweated' from longer than intended.

## Sources of funds for capital expenditure

Page ??? of the Financial Strategy identifies the expected sources of funds for Council's capital expenditure programme. It has been assumed that the funds identified for each of these sources will be received.

### Level of uncertainty

Low.

### Risk

That the forecast funding will not be received as forecast.

### Financial impact

As it is proposed to fund capital expenditure from a range of sources it should be possible to compensate a funding shortfall from one source with funding from another i.e. borrowing. If it is decided to increase borrowing a debt servicing cost and a corresponding increase in rates will arise. The alternative is to slow capital expenditure especially if the project is growth related and the funding shortfall relates to development contributions.

### Infrastructure impact

With a reduced level of funding, the capital projects may be required to be deferred and non-critical assets would be made to 'sweat' for longer than intended.

## Climate change

Council has assumed that the climate changes in relation to rainfall, temperature and sea level will occur as predicted. It has been further assumed that climate change will have minimal impact over the period of the 2024-2034 Long Term Plan. This topic is considered in greater depth in Council's Infrastructure Strategy. This is appropriate given this Strategy covers a longer 30 year period.

### Level of uncertainty

Low.

### Risk

That asset and hazard planning has not adequately assessed climate change. However, to mitigate this risk, the impact of climate change is constantly measured and monitored.

### Financial impact

For the period of the Long Term Plan, the financial impact is assessed as low as climate change on the whole is occurring very slowly, providing extended lead times for mitigation measures if required.

Where the need to undertake mitigation has already been identified, the financial impact has already been incorporated into budgets.

### Infrastructure impact

Remedial programmes may need to be accelerated and lower levels of service tolerated until works can be completed.

As understanding of the effects of climate change on infrastructure in Marlborough improves, all capital projects will give consideration of the effects of climate change in their regards to their priority and their design. The effects of climate change on demand, sustainability, future level of service and resiliency of infrastructure assets will be considered in operational and capital planning and expenditure.

High impact on flood risk if the rate of change is much faster than what is currently predicted, 0.3m by 2050 and a 1% AEP flood will increase in size by 10-15%.

Council has commissioned further studies on this topic so it can better understand the likely impact and timing of climate change. An example of one such report NIWA were commissioned to provide an initial Climate Change Projections and Impacts for Marlborough which was presented to Council in 2023. NIWA have

now been engaged to carry out more detailed analysis so that all future planning can be based on the same climate change predictions.

## Resource consents

Council has assumed that it will continue to hold and comply with appropriate resource consents to enable it to continue its activities, especially in relation to water, sewerage and stormwater.

### Level of uncertainty

Low.

### Risk

Appropriate consents are either not renewed or require improvements in level of service before being granted. The trends in resource consent requirements are covered more fully in the Infrastructure Strategy.

### Financial impact

The main financial impact could occur if levels of service require improvement before a resource consent renewal is granted. The resulting increase in costs will likely require an increase in borrowing which in turn will impact on rates.

### Infrastructure impact

Delays in approval of future resource consents due to factors beyond our reasonable control, e.g. time extension for consultation, puts us at risk of not meeting our legislative requirements and incurring unnecessary costs and damage to our reputation. Any failure to meet the requirements of existing resource consents is also potentially damaging to the environment and our reputation. Working with the Regulatory Department to ensure compliance is met and improving the software in which we record and report on compliance will minimize the risk of failures.

## Capital Expenditure

### Assumption

In preparing this Long Term Plan, Council assumed that capital expenditure as budgeted will occur.

## Level of uncertainty

Low.

### Risk

Capital expenditure can be impacted upon for many reasons including finalising community consultation, obtaining land access, obtaining resource consents, the availability of external professional expertise and receiving an acceptable contract price and contractor availability. Council in its budgetary process recognises these potential impacts in programming the timing of individual projects. Council further recognises that unforeseen events may still occur and has made global budget reductions. The result has been that over recent years capital expenditure has been largely in accord with the funding provided.

### Financial impact

Based on recent years' experience, the potential financial impact should be low. If Capital expenditure varies by 1% the impact will be approximately \$1 million on projected debt levels which will have an operating expenditure impact of circa \$40,000.

### Infrastructure impact

The impact on infrastructure should again be minimal, because with a programme of work greater than the available budget, project managers can reprioritise projects and accelerate another project if delays occur.

## Economic life of assets

### Assumption

Council has made a number of assumptions about the useful lives of its assets. The detail for each asset category is shown in the Statement of Accounting Policies. The useful lives are consistent with Council's experience with respect to its ongoing replacement programme.

### Level of uncertainty

Low - above ground.

Medium – below ground.



## Risk

Assets either wear out or become technically obsolescent and need to be replaced earlier than anticipated.

## Financial impact

Depreciation and borrowing costs would increase if replacement capital expenditure was required earlier than anticipated. However, these impacts could be mitigated in part by reprioritising the capital expenditure programme. There may also be an increase in maintenance costs to keep the asset operational until it is decided to proceed with replacement. With the ability to reprioritise the financial impact should be minimal.

## Infrastructure impact

If useful lives of assets are shorter than what is assumed, forward works programmes need to be reprioritised and non-critical assets will be 'sweated' for a longer period to allow for the required change in programme. Should useful lives of assets be found to be longer than assumed, forward works programmes can be adjusted and renewal programmes can be deferred as appropriate.

## Emissions Trading Scheme (ETS)

Any direct impacts of the ETS through potential price increases are assumed to be covered by Council's inflation assumptions and thus factored into the forecasts.

Specific ETS costs relating to waste and landfill have been incorporated into those estimates, together with the increased revenue that will be received.

Pre 1990 forestry has been registered. Any costs associated with ETS will be minimal given Council's rotation and replanting policy.

## Level of uncertainty

Low.

## Risk

The impact and scope of the ETS may be more than assumed.

## Financial impact

Council will face increased compliance and operating costs, which if significant enough, may require higher fees and charges or increased rating requirements to

fund them. However, Council had already taken steps to reduce the landfill liability and fix the price of the Emission Trading Units that will be required to be surrendered during the scheme's operation.

## Infrastructure impact

Consideration is given to sustainability and emissions in the planning of maintaining, replacing, upgrading and extending all infrastructure. A cost benefit analysis will be applied where proven products, practices and principles exist.

## Port Marlborough NZ Ltd dividends

### Assumption

That forecast dividends from Port Marlborough NZ Ltd (PMNZ) will be received.

### Level of uncertainty

Low.

## Risk

The risk is that the forecast dividends from PMNZ may not be received. The probability of this occurring is seen as low because of the following reasons:

- PMNZ is largely located in Picton, the gateway to the South Island;
- PMNZ has a very diversified revenue stream with income from ferry operations, logs and general freight, three large marinas, commercial property, cruise ships and aquaculture. As a result of this diversification even when COVID prevented cruise ships coming to Picton other revenue streams picked up to compensate.
- PMNZ has delivered dividends ahead of budget for a significant majority of the last 10 years.

## Financial impact

The potential financial impact is seen as low, as dividends are credited to Infrastructure Upgrade Reserve, which has a healthy balance so any impact would not be felt immediately. A 1% reduction in dividends is approximately \$40,000.

## Waitohi Picton Ferry Precinct Redevelopment

### Assumption

The proposed Waitohi Picton Ferry Precinct Redevelopment as originally proposed has been stopped by Government, pending a review by a Ministerial Advisory Group. Port Marlborough has however budgeted for the replacement of the Ferry Terminal wharf structure over the four-year period ending in June 2029.

### Level of uncertainty

Low to medium because we have budgeted for a normal replacement.

### Risk

The Ministerial Advisory Group recommends a significant variation in ship size than what has been anticipated. Very early indications are that ship size will be smaller than that contemplated under the IREX project, thereby reducing risk.

### Financial impact

The financial impact should be minimal as the budget is within the dollar value previously consulted upon as part of iReX development.

### Infrastructure impact

Again this should not be high as Port Marlborough is working on normal wharf redevelopment with an extended programme build timetable to allow for any potential delays.