

LONG TERM PLAN 2031-31

Significant Forecasting Assumptions

| Assumption | Level of financial risk | Impact for high risk assumptions | Level of uncertainty | Financial impact for assumption with high level of uncertainty |
|---|-------------------------|----------------------------------|----------------------|--|
| General assumptions | | | | |
| <p>District growth: Population statistics have been sourced from Statistics New Zealand here. The population of the Far North is estimated at 2020 at 71,000 and is projected to increase at a rate of 0.5% per annum between now and 2043 to an estimated population of 78,000.</p> <p>Growth is expected to be isolated to larger urban areas, particularly Kaitaia, Kaikohe, Kerikeri and Paihia, and the Doubtless Bay area.</p> <p>The population structure of the Far North is likely to change over the next 30 years, with the over 65 age group becoming a dominant demographic. This is likely to be the result of longer life expectancy and the baby boom generation reaching retirement. Demographic changes will occur slowly over time, so we are unlikely to see any great change in expectation from our communities within the next 10 years as a result.</p> <p>Deprivation levels throughout the District are expected to remain unchanged from current levels. Council has used .id as a basis for deprivation mapping across our District. For a description of how deprivation is measured go to www.profile.idnz.co.nz/far-north/deprivation-index. The map of deprivation in the Far North is at www.atlas.idnz.co.nz/far-north. From Map Selector choose income and well-being then deprivation index.</p> | Medium | Not applicable | Medium | Not applicable |

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| <p>Climate change: Climate change projections are assumed to align with IPCC RCP 8.5 projections from the fifth IPCC report (2018). IPCC projections are expected to be updated in 2022 at which time FNDC and the regional adaptation working group will realign plans. In the meantime, Northland assumes the following effects:</p> <ul style="list-style-type: none"> • drought frequency will increase by 10% • sea levels will continue to rise, increasing the risk from coastal hazards • Rainfall will vary locally. The largest changes will be for particular seasons rather than annually. For example, spring rainfall is expected to decrease in Kaitaia • Northland is not expected to experience a significant change in the frequency of extreme rainy days as a result of climate change. In fact, it is likely to experience a decrease in daily extreme rainfall by 2090 under the highest emissions scenario (RCP 8.5) • Future changes in the frequency of storms are likely to be small compared to natural inter-annual variability. Some increase in storm intensity, local wind extremes and thunderstorms is also likely. <p>Council is not expecting to see significant impacts in the next 10 years, but we recognise the need to do some very long range planning. To that end, Council is developing a sustainable district strategy to identify where issues are likely to arise, when those issues will arise and what we need to do. A Climate Change roadmap was adopted by Council in 2020, and FNDC continues to be a member of the regional Climate Change Adaptation working group.</p> | Medium | Not applicable | Medium | Not applicable |

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| <p>Security of water supply: Water shortages due to drought conditions over the past two summers will continue to be addressed in collaboration with the Government. Projects to establish secure water storage assets are advanced, and Council assumes ongoing governmental funding assistance.</p> | Medium | Not applicable | Medium | Not applicable |
| <p>COVID-19: Infometrics economists report that the Northland economy in general remains resilient in the face of COVID-19, with the highest annual increase in spending across New Zealand for the month of January 2021 so far. Regional spending so far in 2021 is up 3.4% per annum on average from a year earlier.</p> <p>Council continues to maintain a sound understanding of the economic impacts of the COVID-19 pandemic.</p> <p>In the short to medium term Council assumes that Northland (and therefore the Far North) will remain one of the most resilient regions in the country.</p> | Medium | Not applicable | Medium | Not applicable |
| <p>Legislative changes: Legislation and / or other regulations relating to Council activities will remain largely the same over the life of this LTP, although it is possible that the Local Government (Rating of Whenua Maori) Amendment Bill will be successful in its transition through Parliament in 2021. The Bill will make unused, unoccupied Maori Freehold Land non-rateable. The total land value that this could apply to is \$291,212,400 or 44% of the land value attributed to Maori Freehold Land. Should this happen, relevant policies and plans will be revised to ensure compliance.</p> | Medium | Not applicable | Medium | Not applicable |
| <p>Building activity: Council estimates building activity to remain at a constant level for the early part of the LTP and then reduce, with approximately 360 new dwellings being expected to be constructed each year for the first three years reducing to 250 per year for the remainder of the plan.</p> | Low | Not applicable | Low | Not applicable |

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|---|-------------------------|----------------------------------|----------------------|--|--------|--------|--|--|--|--|
| <p>Subdivisions: Council estimates subdivision activity to result in an annual increase in rateable properties of 0.5% in year 2 reducing to 0.3% in year 10. There are currently over 7,000 undeveloped residential and lifestyle blocks and these will accommodate growth within the District over the life of the plan.</p> | Low | Not applicable | Low | Not applicable. | | | | | | |
| <p>Rating base: The number of properties we receive rates from is conservatively expected to increase by approximately 0.5% in year 2 and 3 decreasing to 0.3% in year 10. The total number of units over the 10 years is predicted to increase by 1,337 units.</p> | Medium | Not applicable | Medium | Not applicable | | | | | | |
| <table border="1"> <thead> <tr> <th data-bbox="105 667 280 738">Area</th> <th data-bbox="280 667 452 738">2021-22</th> <th data-bbox="452 667 622 738">2030-31</th> </tr> </thead> <tbody> <tr> <td data-bbox="105 738 280 805">District</td> <td data-bbox="280 738 452 805">38,737</td> <td data-bbox="452 738 622 805">40,074</td> </tr> </tbody> </table> | Area | 2021-22 | 2030-31 | District | 38,737 | 40,074 | | | | |
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| <p>Inflation: Future cost increases align with BERL forecasts published in October 2020, retrieved from www.solgm.co.nz/assets/BERL-</p> | Medium | Not applicable | High | <p>If inflation is 0.5% higher than forecast in 2020/21, this will increase the cost of goods and services by \$397,634. If inflation is 0.5% higher than forecast in every year of this plan the cost of goods and services would increase by \$3,651,457 over the 10 years of this plan</p> |
| <p>Levels of Service: Levels of Service will remain static for the period of the LTP. Council is investing in work that maintains its ability to deliver the level of service to the Community (for example, meeting 3 water standards or creating resilience) and this work is deemed not to be renewal related investment.</p> | Low | Not applicable | Low | Not applicable |
| <p>Resource consents: The requirements of future resource consents will be in line with current expected environmental standards.</p> | Medium | Not applicable | Medium | Not applicable |

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|--|-------------------------|--|----------------------|---|
| Expenditure assumptions | | | | |
| <p>Interest rates: Expected interest rates vary from 2.2% in year one to 1.5% in year 10, and the average 'cost of borrowing' for the period is 1.6%.</p> | High | Interest rate risk exposure is managed through long term swaps and forward rate cover. | High | A 0.5% movement in interest will affect operating budgets by +/- \$552,995 in 2021/22. If the rates move by 0.5% for every year of the plan, the effect on operating budgets would be +/- \$11,628,687 (over the 10 years of the plan). |
| <p>Unfunded depreciation: Council does not fund depreciation on transportation assets to the extent that NZTA funds renewals. The current subsidy rate is 69%. Council has decided to not fund 24% of strategic asset depreciation for the first three years of the plan and then to scale back to 100% over the next 10 years.</p> | Low | Not applicable | Low | Not applicable |
| <p>Capital borrowings: Borrowings for capital expenditure are assumed to be repaid over 20 years.</p> | Medium | Not applicable | Low | Not applicable |

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| <p>Capital achievability: The capital works programme is considered to be achievable in the timeframe stated. Usual delays, such as consenting and weather, have been factored into timeframes and phasing. Wherever possible, works are based on known asset condition and have been prioritised to ensure critical assets are renewed on time. Where asset condition is uncertain the best information available has been used. Timing of renewals programmes reflects the expected delivery of asset condition assessment (i.e. increased certainty of condition information over time). Council expects a minimal number of projects carried forward due to delays.</p> | Medium | Not applicable | High | <p>A 20% shift in 3 water renewals from year 1 of the plan to year 2 would be equal to \$1.4m. If year 2 of the plan had to then be flexed by 20% to accommodate the movement, the impact on year 2 would be \$152k.</p> |

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| <p>NZTA funding: NZ Transport Agency requirements and specifications for the performance of subsidised work will not alter to the extent that they impact adversely on operating costs.</p> | High | The recent change in Government will result in a Government Policy Statement that reduces the amount of subsidy provided. | High | <p>Variations in subsidy rates will increase / decrease Council subsidy revenue. This may necessitate Council to review and amend its roading programme.</p> |

Revenue assumptions

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| <p>Subsidies: Council will apply for and receive Government subsidies for applicable projects.</p> <p>Any shortfall in funding from what was applied for would see a reduction/reprioritisation in the capital projects and subsequent reduction in Council's subsidy funding.</p> | High | Council may not receive the funding or receive a lesser amount resulting in Council being unable to deliver the project as planned, including the requirement of additional consultation with affected stakeholders. | High | If external funds are not received, Council will consider rescheduling other projects to allow the original project to proceed without the subsidy, or explore alternative cost-effective and affordable options. Costs to the ratepayer will be subject to consultation as required. |
| <p>Funding sources: Future replacement of significant assets is assumed to be funded in line with the Revenue and Financing Policy.</p> | Low | Not applicable | Low | Not applicable |
| <p>User fees: Increases are based on expected cost increases (inflation). This is expected to be sufficient for funding purposes.</p> | Low | Not applicable | Low | Not applicable |

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| <p>Far North Holdings Limited (FNHL): It is assumed that Council will receive dividends from FNHL throughout the term of the plan and that the business of FNHL will not significantly change.</p> | Medium | Council may not receive the level of dividend expected due to unforeseen economic impacts | Medium | If an economic shock, such as COVID-19, occurs then FNHL will amend the dividend payment to council. This could result in reduced income in the year and may require an amendment to future year plans |
| <p>Development contributions: In 2015 Council resolved to suspend Development Contribution charges in light of the economic downturn. No decision has been made to re-commence the charging of Development Contributions for the term of this LTP, and therefore no income from source is assumed.</p> | Low | Not applicable | Low | Not applicable |

Asset assumptions

Useful lives: Depreciation rates for each asset group have been calculated using rates included in the Accounting Policies. Medium Not applicable Medium Not applicable

Depreciation rates are based on the expected useful life analysis performed by registered valuers in line with the requirements of Accounting Standards.

Renewal of assets is based on a mixture of condition and operational indicators, being maintenance and repair data, and Council has confidence that it will achieve the renewal works in line with the timeframes in this plan.

Legislated reform of Three Waters services: FNDC will continue to collaborate with the Crown on the reform programme for the ongoing provision of water, wastewater and stormwater services that was introduced to local authorities in 2020. Draft legislation is expected to be out for public consultation in late 2021. Local authorities have been advised that any substantive change will not occur before the 2023/24 financial year. Medium Not applicable Low Not applicable

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. 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).

Asset lifecycle: Lifecycles of significant assets, including underground assets, are optimised to strike the best balance between maintenance, operations and renewals costs. Medium Not applicable Medium Not applicable

Asset age: Council has previously used asset age as an effective proxy for the condition of an asset. In the current plan, condition information has been used alongside operational information from asset managers to determine a priority for renewal of assets. A programme of work is in place to increase the level of asset condition information to provide a basis for future planning. Medium Not applicable Medium Not applicable

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|--|--------|----------------|--------|----------------|
| <p>Infrastructure asset revaluations: An assumption has been made that revaluation of infrastructure assets will continue to occur as follows:</p> <ul style="list-style-type: none"> • roading and maritime assets - annually • remainder of assets – biannually, with water and wastewater one year and District Facilities the next. | Medium | Not applicable | Medium | Not applicable |
| <p>Forestry assets: An assumption has been made that forestry assets will be held for the duration of the plan and no harvesting will take place.</p> | Low | Not applicable | Low | Not applicable |
| Liability assumptions | | | | |
| <p>Borrowings: It is assumed that Council will have the facilities to secure funding as required throughout the term of this LTP.</p> | Low | Not applicable | Low | Not applicable |
| Other assumptions | | | | |
| <p>Northern Transportation Alliance (NTA): A shared services agreement between four Northland councils (Kaipara, Far North, Northland Regional and Whangarei) and the NZ Transport Agency (NZTA) was established in 2016. The activities of the NTA attract subsidy on subsidised projects. Council has made provision for gaining subsidy on NTA activities for these subsidised projects throughout the term of this LTP.</p> | Low | Not applicable | Low | Not applicable |
| <p>Strategic assets: Council has not planned for the disposal or transfer of ownership of any strategic assets during the term of this LTP, although it is consulting the public on the divestment of its Housing for the Elderly portfolio</p> | Low | Not applicable | Low | Not applicable |
| <p>Currency movement: Council does not have any significant exposure to currency movements and consequently has not specifically taken them into account.</p> | Low | Not applicable | Low | Not applicable |
| <p>Emissions trading scheme (ETS): Council covers its liability for carbon emissions through fees and charges. Council has assumed no changes to carbon credit prices during the term of this LTP.</p> | Low | Not applicable | Low | Not applicable |

