

Significant forecasting assumptions

Ngā Whakapae Matapae Nui

Purpose

To outline the significant forecasting assumptions that inform the draft 2024-34 Long-term Plan Consultation Document.

Introduction

We are required by legislation to disclose all significant forecasting assumptions that inform the Long-term Plan in both the Consultation Document and the final 10-Year Plan. These assumptions must reflect the best knowledge we have at the time these documents are prepared and will be subject to audit.

We have summarised the high-level assumptions made to develop this Long-term Plan below. Other assumptions sit within the Financial Strategy and Infrastructure Strategy. All assumptions are initial assumptions and will continue to evolve as the Plan develops and is finalised.

Assumptions

Forecasting assumption	Risk	Level of uncertainty
<p>Legislative Changes</p> <p>There were a number of new pieces of legislation introduced under the previous Government that have been since been repealed.</p> <p>There will be ongoing changes to the legislative landscape that the Council operates in which is likely to continue and will have resulting impacts for the Council. We do not know what those impacts might be. For this reason, there is a need to be adaptive and able to pivot in response to change.</p> <p>The review into the Future for Local Government was completed last year with various possible structural changes to local government put forward. It is currently uncertain what, if any, changes Government may make as a result of these recommendations. Environment Southland will continue to work closely with Central Government Ministries and our territorial partners in the region.</p>	That changes to council structure and functions will significantly change costs and resourcing requirements.	High
<p>Government Co-funding for Flood Infrastructure</p> <p>From Year 4 of the LTP we have budgeted to receive 75% of funds from Government with the remaining 25% funded by debt.</p>	Significant investment in flood infrastructure is required which would not be possible without government co-funding.	Medium
<p>Population¹</p> <p>Growth</p> <p>As at 30 June 2023, the estimated population of Southland was approximately 103,900². The population is projected to increase over the next 10 years but growth will depend significantly on whether the Tiwai Point smelter closes or remains open, and whether or not various industries are developed as envisaged in the Beyond 2025 Regional Long Term Plan.</p> <p>Population growth or decline can impact Council finances. However, any change is likely to have a significant lead in time, which can be planned for.</p>	Population growth assumptions could be incorrect.	Medium

¹ Infometrics report "Southland forecasting scenarios for Beyond 2025 Southland"

² Stats NZ Tauranga Infoshare data, retrieved 23 February 2024

Forecasting assumption	Risk	Level of uncertainty
<p>Ageing The number of people aged 65 and older to increase from 19,471 (19% of total) in 2023, to 32,690 (27%) in 2054.</p> <p>While future migration patterns may offset aging to some extent, this is not expected to be of a high enough level to counter the known level of aging.</p> <p>Ageing will increasingly affect demand for services, including public transport and housing patterns. In the near future we will have many older people compared to younger and working age people to support them. There will be a ‘tighter’ labour market over the next 10 years as a result of an ageing population.</p> <p>Diversity The population will continue to become increasingly diverse, meaning that the way we engage with our communities may need to change.</p>		
<p>A changing climate Key environmental issues for the region associated with a changing climate include:</p> <ul style="list-style-type: none"> - Flood frequency and intensity is increasing. - Water shortages and droughts are projected to increase in frequency and intensity. - Predicted sea level rise and storm surges adversely impacting on coastal infrastructure. - Predicted sea level rise resulting in loss of coastal ecosystems and species e.g. coastal turfs. - Predicted sea level rise, storm surges and changing flood frequency poses an erosion and contamination risk to coastal and riparian landfills. <p>There is a significant focus within the Long-term Plan on responding to these challenges, including building a greater understanding of the likely impacts of a changing climate and improving the region’s flood protection network.</p> <p>Adaptation is also crucially important to help minimise the social, cultural, environmental, and economic impacts of climate change.</p> <p>We will continue to advocate for steps to be taken to reduce risks where possible, minimise uncertainty, while building more resilient communities.</p> <p>At the regional level, ongoing collaboration with the territorial authorities and mana whenua will continue in order to ensure a coordinated approach.</p>	<p>That impacts of climate change are felt sooner than expected and may be greater than assumed or predicted.</p>	<p>High</p>
<p>Natural hazards The region has a range of natural hazards, which can be exacerbated by a changing climate as outlined in the previous section. While flooding has always been Southland’s most likely natural hazard, there is also a 75% probability of the Alpine Fault rupturing in the next 50 years³.</p> <p>Environment Southland undertakes business continuity planning to prepare for how it will continue to operate in such an event, as well as supporting Emergency Management Southland.</p>	<p>Council’s ability to operate significantly impacted</p>	<p>Medium</p>
<p>Land use Land use in the region continues to evolve and change with the potential for resulting environmental impacts.</p>	<p>That assumptions around land use change are incorrect and</p>	<p>Medium</p>

³ <https://af8.org.nz/>

Forecasting assumption	Risk	Level of uncertainty
Impacts of land use include effects on biodiversity and water availability and quality. Activities that have these effects have been and will continue to be regulated by both national legislation and regional rules. The proposed Southland Water and Land Plan will be made operative in 2024 following the resolution of Environment Court appeals. A further plan change is in process to give effect to the National Policy Statement for Freshwater Management. The implications for the region are potentially significant.	environmental impacts not well managed.	
Relationship with tangata whenua We will continue to develop the long enduring relationship between the council and the four papatipu rūnanga in Murihiku specifically and with Māori more generally. The increasing partnership opportunities between local government in Murihiku and Ngāi Tahu will increase expectations of the council, for example over freshwater management, land and coastal matters.	That council cannot meet tangata whenua expectations and an increased level of service is required.	Low
Financial		
Inflation Inflation is expected to stay above 4% until 2026/27. Significant increases in inflation, including compound inflation, will impact not only Council's planned expenditure but the community's ability to pay. Inflation will continue to squeeze household budgets and impact on people's ability to pay rates. Higher than expected inflation may require review of services, capital investment and/or financial strategy. Lower inflation will improve Council's position and ability to deliver.	Impacts of inflation are more significant than anticipated.	High
Marine fee Marine fee income comes primarily from large cruise ships. In 2023/24 we budgeted \$2.8m. Cruise ship numbers have increased this year but there is some uncertainty around likely numbers for future years. We are currently budgeting for a total of \$3.2m per annum in the first three years of this plan.	Income assumptions could be incorrect.	Medium
Future of NZAS Rio Tinto announced in early 2021 that they intended to shut down the Tiwai aluminium smelter by 31 December 2024. The loss of up to 2,500 direct and indirect jobs associated with that closure would have a significant impact on the region. We have assumed there would be no change in the number of rating units, little impact on other revenue (separate port dividend assumption) and a potential drop in property valuations. As a result, this is considered to be a low financial risk.	The closure of Tiwai Aluminium Smelter could impact Council finances.	Low
Forecast return on South Port New Zealand Limited The Council's rate requirement is reduced by the level of dividend returned by South Port New Zealand Limited. We have assumed investment returns have been calculated at 27 cents per share. This is based on projected dividends. A change in circumstances of any of South Port's major suppliers could impact on its financial performance and ability to declare the level of dividend that Council expects to receive over the length of the Long-term Plan.	That investment does not return sufficient funds and general rates have to increase.	Medium
Forecast return on investments (excluding South Port New Zealand Limited) Investments are planned to return an average realisable income of 3.0% pa from Managed Funds. The general rate requirement is reduced by realised returns from the investments so any shortfall in these returns would likely increase general rates, while any excess returns	That investments do not return sufficient funds and general rates have to increase.	Medium

Forecasting assumption	Risk	Level of uncertainty																				
could be utilised to offset future general rates or other decisions of Council. Managed funds investments are assumed to be allocated between New Zealand bonds, equities and cash, with equities held in both New Zealand and offshore markets to spread risk.																						
<p>Cost factors</p> <p>We use a risk lens to best estimate what things will cost in the future. This includes inflation estimates. We have used the Business and Economic Research Limited (BERL) Local Government Cost Index (LGCI Table 3) as a basis for inflation on the council's basket of goods. Inflation is forecast to reduce, however the same commentary suggests there is significant uncertainty due to global conflicts.</p> <table> <tr><td>2024/25</td><td>4.8%</td></tr> <tr><td>2025/26</td><td>3.5%</td></tr> <tr><td>2026/27</td><td>3.1%</td></tr> <tr><td>2027/28</td><td>2.5%</td></tr> <tr><td>2028/29</td><td>2.5%</td></tr> <tr><td>2029/30</td><td>2.5%</td></tr> <tr><td>2030/31</td><td>2.4%</td></tr> <tr><td>2031/32</td><td>2.4%</td></tr> <tr><td>2032/33</td><td>2.4%</td></tr> <tr><td>2033/34</td><td>2.3%</td></tr> </table>	2024/25	4.8%	2025/26	3.5%	2026/27	3.1%	2027/28	2.5%	2028/29	2.5%	2029/30	2.5%	2030/31	2.4%	2031/32	2.4%	2032/33	2.4%	2033/34	2.3%	That our assumptions of cost estimates are exceeded.	Medium
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<p>Interest rates on borrowings</p> <p>Council will fund infrastructure investments through debt, which will be subject to interest rates that we expect to be in the order of 6% per annum. The Council will use LGFA indicators to annually calculate the actual interest rate cost factors.</p>	Interest rates are higher or lower than forecast.	Medium																				

Significant negative effects

Ngā Pānga Kino Nui

The following table lists the possible significant negative effects⁴ that have been identified.

Group of Activities	Significant negative effects
Healthy Environment	<p>Increasing costs and/or changes to current practice to meet changing freshwater environmental standards as set by national and regional policy.</p> <p>Making the change to more sustainable land management practices may have economic, cultural and social impacts for individual landowners.</p> <p>Biosecurity rules may impose land use restrictions or financial impacts on individuals within our communities.</p>
Safe and Resilient Communities	The Flood Protection and Drainage Management Bylaw 2020 may impose restrictions or financial impacts on individuals within our communities.
Thriving Region	There are no significant negative effects of providing these services.

⁴ As required by Schedule 10, Clause 2, Local Government Act 2002.