



**For now &
our future**

LTP 2024 – 2034
Critical Financial Strategy Assumptions
Workshop 1 Sept

Purpose

To agree on our Critical Financial Assumptions

What are Financial Strategy Assumptions

A Critical Financial Strategy Assumption is:

- a significant assumption that impacts materially on revenue, rates, debt or levels of service

A Critical Financial Strategy Assumption has:

- a large financial impact and/or
- a large risk of being wrong

Risk Matrix

Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

Assumption structure for workshop

- General Assumptions
- Revenue Assumptions
- Expenditure Assumptions
- Borrowing Assumptions
- Resilience Funds

General Assumptions - Overview

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Inflation	As assessed by BERL	Moderate	Moderate	Will have an impact on funding required
Regional Growth	To be assessed	Low	Low	A change in the number of rating units is unlikely to materially change financial strategy.
Future of NZAS	No change	High	Moderate	See next slide
Legislation	Change	Moderate	Moderate	See next slide
Covid-19 Financial Impacts	No impact	Moderate	High	See next slide

Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

General Assumptions – Inflation

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Inflation	Moderate increases and accurately forecast ahead.	 High	Moderate	<p>Compound inflation poses significant financial challenges.</p> <p>Whole of community impacted by increasing costs. Underestimating inflation will impact costs and FS.</p> <p>Conclusion: Inflation forecasts are accurate</p>

Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

General Assumptions – Future of NZAS

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Future of NZAS	No change 	High	Moderate	<p>Significant impact on local economy if NZAS closes.</p> <p>No change in the number of rating units, little impact on other revenue (separate port dividend assumption), potential drop in property valuations – all have low FS risk.</p> <p>Conclusion: A risk but not critical, dividend risk considered separately</p>

Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

General Assumptions – Legislation

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Legislation impost, expectations, “cost of growth”	No change 	Moderate	Moderate	<p>Expectation of councils continues to grow, the services and cost of services required to be delivered continues to grow.</p> <p>Budgeting only for inflation and not acknowledging and budgeting for service growth is a risk.</p> <p>Conclusion: Consider various scenarios that include real cost of service growth.</p>

Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			


General Assumptions - Covid

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Covid-19 Financial Impacts	No return to covid restrictions	Moderate	High	<p>Returning to covid restrictions would mean economic uncertain / volatility, less tourism.</p> <p>Operationally risks would be – unable to operate effectively and efficiently.</p> <p>Potential to impact marine fee income.</p> <p>Conclusion: Assume business as usual.</p>




Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

Revenue Assumptions - Interest

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Interest on fund investments	Average return maintained	 Moderate	Moderate	<p>Following losses earlier in the year the returns have bounced back. New Zealand is officially in a recession, but investment returns are surprisingly remaining bullish. It seems likely there will be a correction, but when this occurs is not possible to budget with any certainty.</p> <p>This will be a variable in FS model and sensitivity analysis can be assessed.</p> <p>Conclusion: Continue to forecast conservatively around cash returns used to subsidise rates.</p>

Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

Revenue Assumptions – South Port

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Southport dividend	No change 	Moderate	High	<p>This is a significant revenue line, such that a large change will materially affect the FS.</p> <p>The decision on NZAS could materially impact on Southport.</p> <p>The SP directors have not forecast a change in dividend but are signalling caution as we head into a slowing economic cycle.</p> <p>Conclusion: Budget based on forecast dividend, consider options that include not using 100% for rates subsidy.</p>

Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

Expenditure Assumptions

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Levels of service in inflation environment	Existing budgets are inflation adjusted and sufficient to attain desired LOS	Moderate	Moderate	<p>Existing budgets adjusted for inflation are adequate to maintain service levels.</p> <p>Levels of services (and associated budgets) have a large impact on the FS.</p> <p>Conclusion: LOS can be maintained, no change to operating expenses except for inflation</p>



Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

Revenue Assumptions – Marine fee

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Marines Fees	That marine fee is maintained at 2023.24 forecast level, inflation increases applied every second year.	Moderate	High	<p>This is a significant revenue line, t a large change will materially affect the FS.</p> <p>This will be a variable in FS model and sensitivity analysis can be assessed.</p> <p>Conclusion: Forecast marine fee at AP levels, model options around use of funds and amounts that can be reserved</p>




Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
	High			

Revenue Assumptions - Rates

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Annual rates increases	To be set 	Low	High	<p>The most significant revenue line, a large change will materially affect the FS.</p> <p>100% in Council's control but increases could be difficult in a challenging economy.</p> <p>This will be a variable in FS model and sensitivity analysis can be assessed.</p> <p>Conclusion: Will be modelled at variable rates</p>



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Debt/Reserve Assumptions

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Deficit budgets	Operating budgets are cashflow positive.	 Low	Moderate	<p>Operating budgets in the LTP 2021 were deficit budgets. Agreement was to become cashflow positive in the 2024.25 year.</p> <p>Conclusion: Debt will be used to fund capital expenditure only</p> <p>Capital expenditure forecasts and assumptions around government funding are fundamental to the overall financial strategy. Debt capacity will quickly disappear if co-funding assumed but not available.</p> <p>Conclusion: Include assumptions around co-funding, review annually</p>
Capex	Capital expenditure is debt funded and remains within debt maximum limits	 Low	Moderate	
Co-funding	Government co-share of Climate Resilience expenditure is available	 Moderate	Moderate	

Assumption Matrix		Uncertainty		
		Low	Moderate	High
Financial Strategy Risk	Low			
	Moderate			
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Resilience Fund Assumptions

Item	Assumption	Uncertainty	Financial Strategy Risk	Comment
Reserve fund spending	Minimal reserve fund spending	 Low	Moderate	<p>Financial resilience allows Council to weather unexpected events (earthquakes, floods, pandemics and recessions) without massive claim on the ratepayer. Cash backed reserve funds are key to financial resilience.</p> <p>Council has debt capacity but has eroded reserve funds. Starting the modelling on the assumption of using debt instead of reserves will provide transparency.</p> <p>Any further reduction in cash backed reserves will mean reduced interest income and debt capacity.</p> <p>Conclusion: Start with assumption of minimal use of reserve funds for first 3 years.</p>
Reserve fund building	Gradual building of financial resilience	 Low	Moderate	<p>After 3 years of forecast deficits, it is time to start slowly rebuilding cash backed reserve funds.</p>

Commentary from last LTP. Recommendation is to start rebuilding reserves in the 2024 LTP

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Financial Strategy Risk	Low			
	Moderate			
	High			

We are unlikely to be correct with all our assumptions

Its important that we're on the right side of wrong