

2015-
2025

LONG TERM PLAN



Forecasting assumptions

Assumptions underpinning the 2015-25 Long Term Plan

Forecasting assumptions identify possible significant future events and trends and examine their likelihood and potential impact on the community and the Council. These assumptions deal with matters of uncertainty and complexity. The forecasting assumptions described in this document provide the basis for the Council planning its activities over the coming ten years in the LTP 2015-25.

Please note: actual results will likely vary from the information presented but the assumptions are based on the best information known at the time. These assumptions have been developed specifically for the Council's ten year planning purposes.

This section summarises some of the significant assumptions identified as part of the development of the LTP 2015-2025.

Population

The Council's infrastructure (including water, waste-water, storm-water assets, open spaces and roads) has for the most part sufficient existing capacity to meet the demands of the anticipated slow population growth in the district. The latest estimated population of the district is 26,850 people (at 30 June 2013), which is estimated to grow at a slow rate to approximately 27,188 over the life of the LTP.

The main demographic trend forecast for the life of the plan is that of an ageing population. The proportion of the population over 65 years of age is predicted to increase from approximately xx% to xx% of the district over the next ten years.

Dwelling growth

While the resident population has grown by over 1,000 people (0.3% per year) in the last 12 years, over the same period, nearly 4,200 new dwellings have been built, increasing the total number to nearly 24,200 dwellings. This is an increase of around 1.6% or 350 dwellings per year. Most of the growth is in unoccupied dwellings, the majority assumed to be holiday homes.

Climate change

Infrastructural planning to ensure future assets are of a sufficient standard and have adequate capacity to cater for predicted climate changes is of high importance to the Council. International research identifies that global warming is accelerating and having significant effects on the global environment. Over the life of the plan the main effects are forecast to be more frequent and severe storm events with an increased likelihood of landslides and flooding.

Legislation changes

Over the life of the plan it is likely there will be political and legislative directives from central government on the form and function of local government that will affect the Council. Other legislation that will have an impact on the Council's services and activities include the treaty settlement legislation, the Food Bill, the Building (Earthquake-prone buildings) Amendment Bill, and ongoing resource management reforms.

Inflation

The rate of inflation for the provision of council services is expected to increase at 1% to 4% per annum over the lifetime of the plan. The Council often faces a significantly different rate of inflation, compared with the CPI, as the main costs to the Council's activities include items such as building materials, asphalt, bitumen, energy costs and wages. The cost of providing council services can therefore vary significantly without a corresponding increase in service delivery.

Growth and Population Projections

The growth projections for population, dwellings and rating units at district, community board and settlement level, were the subject of a comprehensive review carried out in 2014 (*Thames-Coromandel District Projections for Resident Population, Dwellings and Rating Units to 2045* prepared by Rationale, May 2014). While taking account of district population growth as a whole,

the review has considered a range of factors influencing dwelling and rating unit growth, including the economic climate and outlook, demographic changes in the resident population and the high and potentially changing proportion of unoccupied dwellings.

The review presented three growth scenarios:

- pessimistic growth (declining population),
- slow growth (slight increase in population) and
- optimistic growth (strong population growth).

The slow growth scenario is considered the most appropriate for the purpose of Thames-Coromandel District Council's long term planning. The key reasons are:

- The slow growth scenario provides realistic projections that are conservatively optimistic. It is considered to best reflect historical trends and the current economic climate.
- The population growth projected under the slow series is consistent with historical trends of a relatively stable population.
- The slow scenario is informed by Statistic New Zealand's (SNZ) slow population series. SNZ consider their slow series to be the most appropriate to assess future population changes. This is based on comprehensive demographic analysis. The optimistic growth scenario is considered to be too aspirational, and may lead to overstating the growth. Similarly the pessimistic growth scenario is more of a worst case scenario. While this provides a useful perspective, it is not considered appropriate for long term planning purposes.

Topic	Forecasting assumption	Risk	Level of un-certainty	Impact of risk
Population growth	<p>Under the selected population projection scenario the population in the district increases over the life of the plan at a lower rate than the past 12 years, only 30 people per year. However this is consistent with the growth in population over the last seven years. The rate of growth is also higher in the first 10-15 years (with growth continuing steadily until 2026, after which time the growth slows slightly).</p> <p>The population in the Mercury Bay and Coromandel-Colville Community Board areas increase by 623 and 83 people respectively. The population in the other community board areas is projected to decline; Tairua-Pauanui by -0.5% or a loss of 11 people per year, Thames by -0.15% or a loss of 15 people per year and Whangamata by -0.4% or a loss of 14 people per year. This is consistent with recent trends.</p>	Population growth across the district, each community board areas and each settlement occurs at a higher rate than the relatively low rates assumed.	Low	<p>Low</p> <p>Council infrastructure and facilities copes with peak holiday periods that are far in excess of the resident population. A significant increase in population of some settlements could place greater demands on some Council services and facilities (such as libraries, solid waste, and community health and safety services) and raise expected operating expenditure. The financial implications for Council should be limited and able to be managed in the short term but may need longer term responses.</p>
Rating unit growth	Rating unit projections show district rating units increasing on average by 0.6% per annum over	Rating unit growth occurs at	Low	<p>Low</p> <p>Economic conditions and the</p>

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	<p>the period of the plan increasing to 28,540 units by 2025 (an increase of 1,563 units), an overall increase on 2015 rating units of 5.8% (approximately half the overall increase projected for the 201-2022 period in the previous plan).</p> <p>Mercury Bay Community Board area is expected to see significantly larger gains in rating units than the other board areas with growth of over 900 units in the planning period.</p>	higher or lower rates than assumed in the District, in the community board areas or particular settlements		<p>discretionary nature of the housing market can cause variations in rating unit growth from that assumed.</p> <p>The main financial effect of slower than projected growth can be a reduction in budgeted development contributions and rating revenue. It can result in increased debt levels and associated interest expense for capital projects.</p>
Dwelling growth	<p>Dwelling unit projections follow a similar projection to rating units with the district's dwelling increasing on average by 0.6% per annum over the period of the plan increasing to 25,894 units by 2025 (an increase of 1,473 units).</p> <p>Mercury Bay Community Board area is expected to see the largest gain of nearly 900 units.</p>	Dwelling growth across the District, in each community board and in each settlement, occurs at higher or lower rates than assumed.	Low	<p>Low</p> <p>Economic conditions and the discretionary nature of the housing market can cause variations in dwelling growth away from that projected.</p> <p>Projections for the settlements are more susceptible to variation where individual developments can strongly influence dwelling delivery.</p> <p>The main financial effect of slower than projected growth can be a reduction in budgeted development contributions and rating revenue.</p> <p>However, dwelling growth projections and revenue from new development for the LTP period are conservative. Council can make adjustments to infrastructure delivery to account for variations.</p>
Age demographics	There will continue to be significant in-movement of retirees to the district, bringing demands for particular services, facilities and commercial services. There will continue to be a decline in the younger 20-39 working age groups because of the lack of employment opportunities. It is assumed that employment opportunities in larger centres such as Auckland, Hamilton, Christchurch and Australia will continue to draw working families away from the Coromandel. The proportion of the population under 15 years of age is projected to	Population in young and young working family age groups rises significantly as a proportion of resident population.	Low	Any significant variation to the assumed aging population profile may result in certain sectors of the community experiencing lower than expected levels of service. The Council may have to redirect funding to particular activities to suit a younger population.

Topic	Forecasting assumption	Risk	Level of un-certainty	Impact of risk
	<p>decline by 9% over the period of the plan.</p> <p>As well as creating skills shortages in the local economy, the loss of working families could have effects on school rolls and reduce the volunteer workforce.</p>			
Economic	<p>Economic activity will grow at a similar pace to 2014 (3.5%) for the next two years with a weaker forecast for nominal GDP over the medium term.</p> <p>This outlook is based on Treasury's forecast which notes the key drivers as residential construction, business investment and population growth in the short term. The lower forecast for the medium term is based on lower-than-expected domestic inflation and weaker international commodity prices.</p>	Economic recovery stalls or is slower than expected	Medium	<p>A slow economy has the effect of perpetuating affordability issues, slowing development and delaying cost recovery through rates and development contributions in particular.</p> <p>The risk can be managed through sound debt management and prudent financial planning.</p>
Climate change	<p>Climate change may affect the district over the medium to long term in line with predicted national changes such as increased temperatures, increased sea level, increased heavy rainfall and storm events.</p> <p>The Ministry for the Environment recommends for planning and decision timeframes out to 2090–2099 a base value sea-level rise of 0.5m relative to the 1980–1999 average be used along with an assessment of potential consequences from a range of possible higher sea-level rise values. At the very least, all assessments should consider the consequences of a mean sea-level rise of at least 0.8m relative to the 1980–1999 average.</p>	<p>Natural hazard events (flood, erosion, drought, etc.) affecting the district's assets: houses, utilities, transport, community assets, beaches, will gradually increase over time.</p>	Medium	<p>Over the medium to long-term as climate changes become more prevalent there are impacts and implications for many aspects of life in the district. For example, severe weather events, e.g. high rainfall, flooding, landslips, and coastal inundation and erosion may have implications for residential housing and settlements, commercial and industrial properties, the transportation network and other infrastructure in the district.</p> <p>Even over the short term there is demand by landowners for protection against natural hazards, especially flooding and coastal erosion which are exacerbated by climate change. The consequences of this include cost of new natural hazard defences (very expensive to build and maintain), social dislocation, and the loss of natural character that epitomises the Coromandel - the pristine beaches and estuaries.</p> <p>Policy settings controlling the location of new development</p>

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				<p>are being reviewed through the Council's proposed District Plan to take into account any increased coastal hazards and other location specific climate hazards and extremes, as will the building code for such matters as wind loadings. The Council will also monitor trends for incorporation in its asset planning.</p> <p>Infrastructural planning to ensure future assets are of a sufficient standard and have adequate capacity to cater for predicted climate changes is of high importance to the Council.</p> <p>The Ministry for Environment has two guidance manuals for Local Government which covers 'climate change effects and impacts assessment' and 'coastal hazards and climate change'. The Council will continue to use these guides to assist in the management and delivery of its assets and services. These guides will be particularly applicable to asset and activity management plans.</p>
Tourist and visitor growth	Tourists and visitors will continue to be a major element of the economy and continue to grow in numbers over time.	Too much reliance is placed on tourism and visitor numbers fall to levels that undermine the local economy. Tourist and visitor numbers reach levels that put pressures on facilities and the environment.	Low/ Medium	<p>Falling visitor numbers may undermine the economy affecting user charges, rates revenue and development contributions.</p> <p>However, very high visitor numbers may place pressure for additional funding of activities such as harbours, parks and reserves and public conveniences.</p>
Treaty of Waitangi settlements	The Hauraki Treaty Settlement process is expected to change the way Council has traditionally operated with Iwi with the prospect of co-management	The operating environment changes beyond any	Low	There will be new demands on operating budgets of various Council activities in order to be able to respond effectively to a new operating environment.

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	<p>regimes and co-governance roles.</p> <p>Iwi will play an increasingly important role in both the economic and social development of the District as land owner and joint manager of the District's most valuable assets – in aquaculture, tourism and forestry.</p> <p>The resolution of Treaty Settlements could bring opportunities for growth in some sectors such as forestry and aquaculture bringing a new social dynamic to the Coromandel.</p>	expected by the Council		
Legislative changes	Legislative changes generally will continue to create significant work for territorial authorities and cause them to incur more costs. The devolution of responsibility from central to local government is expected to continue and mandatory health and environmental standards will increase Councils costs and obligations steadily over time.	Devolution of powers and legislative changes continue or increase significantly.	Medium	Changes to legislation will require significant amounts of work and new expenditure across a range of council activities over the planning period.
Resource consent standards/ Property designations	Resource consent standards for water sources and for stormwater and wastewater discharges from Council infrastructure will increase steadily over time, but consents will be obtained without appeal and consent compliance will be achievable. The drinking water standards will be achievable.	Resource consents are appealed to the Environment Court resulting in significant delays.	Medium	Recent reforms have sped appeal processes up. However, consenting processes can still be costly.
	Any new property designations or resource consents required for new wastewater, water, stormwater and solid waste systems, or for the significant upgrading of existing systems, will be able to be obtained, subject to conditions acceptable to the Council, and any necessary land purchased, prior to the time that has been scheduled for the actual construction of works, in this plan.	Stringent resource consent conditions and standards lead to high treatment standards being imposed which lead to high costs.	Medium	Higher treatment standards being imposed will lead to higher operating and maintenance costs. In the term of the plan eight (out of 20) wastewater activity consents expire and seven (out of 21) water activity consents expire.
		Designations or consents cannot be obtained, or the necessary land purchased, before the	Medium	Designation processes have been streamlined but can still be costly. The risk can be minimised if the Council always has a clear and detailed future forward work programme to which it is committed, for at least the next three to four years.

Topic	Forecasting assumption	Risk	Level of un-certainty	Impact of risk
		scheduled time of construction. Work is delayed.		
Significant land use changes	<p>The District Plan review is underway and will give effect to the Coromandel Peninsula Blueprint: Framework for our Future, influencing land use changes but there will not be any substantial (either general or localized) changes to land uses in the District during the ten year period, that have consequential impacts on Council infrastructure needs, that have not been foreseen.</p> <p>It is too early to assume any major land use effects of the increasing economic role of iwi in forestry, aquaculture and agriculture following the Treaty settlement.</p>	Significant unforeseen land use occurs of a type that has potential significant effects	Low	<p>The Council will need to assess the situation but this matter is not entirely within the Council's hands. A third party may lodge an application for a plan change or non-complying consent at any time. This can lead to higher unforeseen costs in certain areas.</p> <p>The risk is however minimised by the fact that the Council is able to impose appropriate conditions at the time of resource (or other planning) consent to minimise effects - including the power to require work to be done, or money to be paid, to fund the cost of addressing the direct impacts. Development contributions may be able to be obtained.</p>

Financial Assumptions

Topic	Forecasting assumption	Risk	Level of un-certainty	Impact of risk
Useful lives of significant assets	<p>The useful asset life reflects the best estimate available as at forecast date and is based on current asset information held. The useful life of each class of asset is outlined in the Statement of Accounting Policies for Prospective Financial Statements - Depreciation.</p> <p>Further information about the issues associated with useful life of significant assets may also be found in Council's 30 Year Infrastructure Strategy.</p>	Some assets may wear out and fail sooner, or later, than calculated.	Medium	<p>There is no certainty that asset components will last exactly their design lives. However, replacement is budgeted at the expected end of useful life and earlier replacement will result in a loss on disposal of any residual value.</p> <p>Earlier replacement may result in the deferral of other discretionary capital projects in order to remain within self-imposed debt limits as set out in Council's Financial Strategy.</p>
Price level changes	The Local Government Cost Index measures cost drivers specific to local government (e.g. concrete, reinforcing steel, bitumen, roading chip, building materials, energy and wages etc) which differs significantly from the inflation pressures affecting	That price level changes will vary from those used.	Low	Inflation is affected by external factors, most of which are outside of Council's control and influence. Actual individual indices will at times vary from what has been assumed in the Long Term Plan. The

Topic	Forecasting assumption	Risk	Level of un-certainty	Impact of risk
	households as measured by the consumer price index (CPI). LGNZ commissioned an independent report to provide local authorities with the forecast inflation on key cost drivers. The measure of inflation is forecast at 2% to 4% annually.			<p>council has relied on the Reserve Bank's use of monetary controls to keep inflation within the 1% to 3% range. The effect of any variation up, or down, will result in a higher or lower rates requirement.</p> <p>Based on a projected total expenditure (operating and capital) of \$100 million a plus/(minus) 1% movement in the forecast inflation rate would result in an approximate movement in total costs of plus/(minus) \$1million. This would then have a flow on effect into all of the remaining years of the ten-year plan.</p>

Year Ending	June 2016	June 2017	June 2018	June 2019	June 2020	June 2021	June 2022	June 2023	June 2024	June 2025
Percentage Inflation Increase	2.55%	4.45%	6.45%	8.6%	10.9%	13.35%	15.95%	18.75%	21.75%	24.95%

Figure 1: Operating Unit Cumulative Inflation Predictors

Year Ending	Road	Property	Water	Energy	Staff	Other
June 2016	1.0%	3.05%	7.4%	6.0%	2.55%	2.7%
June 2017	2.3%	5.45%	12.2%	9.85%	4.45%	5.2%
June 2018	4.15%	8.05%	16.0%	14.05%	6.45%	7.85%
June 2019	6.55%	10.85%	19.6%	18.55%	8.6%	10.7%
June 2020	9.15%	13.85%	23.5%	23.5%	10.9%	13.8%
June 2021	12.0%	17.05%	27.7%	28.95%	13.35%	17.1%
June 2022	15.1%	20.5%	32.3%	34.85%	15.95%	20.7%
June 2023	18.45%	24.25%	37.3%	41.3%	18.75%	24.6%
June 2024	22.1%	28.25%	42.65%	48.4%	21.75%	28.8%
June 2025	26.0%	32.55%	48.45%	56.1%	24.95%	33.35%

Figure 2: Activity Units Cumulative Inflation Predictors

Year Ending	Road	Property	Water
June 2014	1,000	1,000	1,000
June 2015	0.40%	1.90%	4.70%
June 2016	1.60%	4.20%	10.10%
June 2017	3.00%	6.70%	14.30%
June 2018	5.30%	9.40%	17.70%
June 2019	7.80%	12.30%	21.50%
June 2020	10.50%	15.40%	25.50%
June 2021	13.50%	18.70%	29.90%
June 2022	16.70%	22.30%	34.70%
June 2023	20.20%	26.20%	39.90%
June 2024	24.00%	30.30%	45.40%
June 2025	28.00%	34.80%	51.50%

Figure 3: Asset Revaluation Cumulative Inflation Predictors

Topic	Forecasting assumption	Risk	Level of un-certainty	Impact of risk																												
NZTA subsidy rates	<p>The NZTA funding assistance rate has been included at the increased rate of 46% for 2015/16 increasing 1% each year to 51% in 2020/21 and the years that follow.</p> <p>The new rate results from a two year review of the Funding Assistance Rate which was part of a wider suite of initiatives by NZTA to deliver greater value for the people and goods that rely on the land transport system. The funding assistance rates focus on the next three year national land transport plan 2015-2018 and the transitional phase that sees all councils receive the minimum assistance rate of 51%.</p>	There is a risk that subsidy rates will change.	Low	A 1% movement in the funding assistance rate would result in total costs of \$150,000																												
Interest rates on borrowing	<p>Interest on existing and new borrowing is forecast as follows:</p> <table><tr><td>2015/16</td><td>6.52%</td><td>2016/17</td><td>6.26%</td></tr><tr><td>2017/18</td><td>6.04%</td><td>2018/19</td><td>5.95%</td></tr><tr><td>2019/20</td><td>5.92%</td><td>2020/21</td><td>5.94%</td></tr><tr><td>2021/22</td><td>5.98%</td><td>2022/23</td><td>5.93%</td></tr><tr><td>2023/24</td><td>5.84%</td><td>2024/25</td><td>5.82%</td></tr></table> <p>In calculating these rates the Council has taken into account</p>	2015/16	6.52%	2016/17	6.26%	2017/18	6.04%	2018/19	5.95%	2019/20	5.92%	2020/21	5.94%	2021/22	5.98%	2022/23	5.93%	2023/24	5.84%	2024/25	5.82%	Interest rates will increase beyond those budgeted for the 10 year LTP period.	Low	<p>The cost per annum to the Council given a 1% increase in the interest rate at a range of assumed borrowing levels is below.</p> <table><tr><td>\$25M</td><td>\$250,000</td></tr><tr><td>\$50M</td><td>\$500,000</td></tr><tr><td>\$75M</td><td>\$750,000</td></tr><tr><td>\$100M</td><td>\$1,000,000</td></tr></table>	\$25M	\$250,000	\$50M	\$500,000	\$75M	\$750,000	\$100M	\$1,000,000
2015/16	6.52%	2016/17	6.26%																													
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Topic	Forecasting assumption	Risk	Level of un-certainty	Impact of risk
	interest rate swaps held and the forecast interest rate at 14 January 2015.			
Refinancing Term Loans /External Funding	Loan servicing is calculated on a table basis over 30 years for infrastructure, with early repayment if surplus depreciation reserves are available. Refinancing of external loans is assumed to be readily achieved.	Refinancing of external loans is difficult	Low	The Council expects to maintain a significant lead-in time within which it can seek to lock in alternative funding sources.
Vested assets	The level of vested assets from resource consents issued is assumed to be at levels over the past five years during which there has been slower growth than in previous years and which is more likely to reflect growth into the LTP period.	The value of vested assets is greater than predicted thereby increasing depreciation expense	Medium	Should the level of vested assets be higher than estimated, there will be an increased depreciation expense in the following years.
Sources for funds for future replacement of significant assets	It is assumed that funding for the replacement of significant assets will be obtained from the appropriate sources as set out in the Council's Revenue and Financing Policy	The main risk is that budgets for some capital replacements may not have been included and sources may not meet requirements	Low	There is little or no risk that sources of funds for replacement of significant assets will not be achieved. Funding of all asset replacements during the life of the Ten Year Plan has been disclosed.
Currency movements and related asset values	Some components of works in the Ten Year Plan may be sourced from overseas. It is assumed that all input components (whether sourced in New Zealand or abroad) will be assessed in New Zealand dollars.	Currency exchange rates will significantly fluctuate.	Low	Variations in pricing for large components will have limited impact on rates as these costs are debt funded and repaid over the life of the assets.
Forestry	The value of log prices is anticipated to increase in the future. These prices are affected by demand, by the foreign exchange rate, and whether or not the trees have been irrigated.	That the prices will continue to be low for the life of the Plan and that the quality of irrigated trees will reflect in a lower log price.	Medium	While this risk has a medium certainty, it has very low impact as returns from log sales are projected to be a minimal source of income.

Risk Assessment

Criteria for Assessing Uncertainty and Impact

The following methodology will be applied to each of the assumptions to grade their importance to the community and the Council. Assumptions with low uncertainty and high impact are issues that will feature strongly in the Council's planning for the next ten years. Assumptions with high uncertainty and low impact will also be considered, but are less likely to significantly influence the council's forward planning.

Table 1 – Uncertainty

Uncertainty	Likelihood of Occurrence
Low	High likelihood, almost certain to occur during life of plan
Medium	Medium likelihood, likely to occur during life of plan
High	Some likelihood, may occur during life of plan

In Table 1 'uncertainty' is directly related to 'likelihood' with both measures relating to the ten-year timeframe of the LTP.

Impact

In evaluating risk, the potential impacts of a risk event occurring need to be considered. For the purposes of this framework, the impact of risk relates to the potential impact on the Council's ability to fulfil its new purpose under the Local Government Act 2002 as amended in 2012.

Relevant considerations include the potential impact on:

The Council's ability to enable democratic decision-making and action by, and on behalf of , communities.

- The Council's ability to meet the current and future needs of communities for good-quality local infrastructure and local public services and perform regulatory functions in a way that is most cost-effective for households and businesses.
- The costs of the Council's operations.
- The need for additional capital expenditure.
- The need for any additional revenue (rates, fees and charges).

Impact of Risk

The likely impact of risk is evaluated as set out in Table 2 below.

Table 2 - Impact of risk

Low	Medium	High
<ul style="list-style-type: none">• Existing or planned levels of service will not be affected.• The costs of the Council's operations will not increase and no additional capital expenditure will be required.• No significant impact on the community, local economy and/or environment.	<ul style="list-style-type: none">• There will be a need to change levels of service.• The costs of the Council's operations and/or capital expenditure will moderately increase and the revenue requirements will need to moderately increase above that provided for in the plan.• There will be a moderate impact on the community, local economy and/or environment.	<ul style="list-style-type: none">• There will be a need to significantly change levels of service.• The costs of the Council's operations and/or capital expenditure will significantly increase.• There will be a significant impact on the community, local economy and/or environment. This will be reflected in such matters as significant changes in economic opportunities, pandemic events, loss of property and/or life due to extreme weather events or other natural hazards.