2024-34 LTP Financial and Other Assumptions Summary

Item	Assumption	Level of Uncertainty	Risk	Implications of Risk	Considerations/Commentary
FUNDING SOURCES					
Growth in Rating Base	This is growth per annum in revenue from rateable properties as a result of additional numbers and value added from building activity. Higher growth is expected in year 1 and 2 with a consistent 1% per annum growth expected after that. Year 1 = 1.4%, Year 2 = 1.2% The number of households and value of properties in the Masterton District will continue to grow. Dwellings and household sizes will be smaller – meaning household growth will be higher than population growth. The growth in numbers and values will be largely in the Masterton urban area.	**Moderate-High** Housing growth forecasts include some reliance on population growth and economic forecasts. There is always some degree of uncertainty, and at the current time, with economic conditions and uncertainty surrounding migration, this is amplified.	Given the high level of uncertainty, there is a moderate-high risk that household growth will be higher or lower than we have forecast.	**Higher Growth:** Rates would be spread over a larger number of properties, increasing affordability for our community. **Lower Growth:** If growth is significantly less than we have forecast, Council's ability to increase rates as much as needed will be less. Rates would be spread over fewer properties, decreasing affordability for our community.	Sense Partners projections (2023) forecast growth of 6,550 between 2022-2054, from an estimated 12,352 households in 2022 to 18,902 households in 2054. This equates to an increase of 53% over the 32 year period, or average growth of 1.66%. From a 2023 baseline, growth is forecast to increase from 12,605 to 18,902, an increase of 6,297 (49.96% or an average of 1.61% per annum). Infometrics (February 2024) are expecting the building industry to continue to slow in 2024, which could slow growth in our rating base. While Masterton experienced strong growth post COVID-19, particularly given relative housing affordability and changes in the way people (i.e. remote working being more acceptable), this growth has slowed from a 3% peak in 2020, to 1.6% in September 2023 (Stats NZ)

Interest Earned	**On Invested Funds:** 2024/25: 4.5% per annum From 2025/26: 4.0% per annum **On Internal Investment Loans:** 2024/25: 4.25 per annum From 2025/26: 4.0% per annum	**Medium** Interest rates have been increasing since 2021. While most commentators are expecting interest rates to begin to fall in Q4 2024, there is a degree of uncertainty due to domestic inflation remaining high.	That interest rates will be lower than we have assumed.	**Lower Interest Rates:** Lower interest rates on investment funds would result in reduced income for Council. In Year 1 of this Plan, an interest rate that is 1% less than we have assumed for invested funds would equate to $180k less income. In Year 1 of this Plan, an interest rate that is 1% less than we have assumed for internal investments/loans would equate to $78k less internal income. **Higher Interest Rates:** In current circumstances, the likelihood of higher interest rates is considered low. However, if this was the case, our income would increase.	Economic conditions have increased interest rates for Council funds that are invested. There remains a high level of uncertainty regarding the RBNZ's approach to the OCR for the remained for 2024, with many commentators not picking rates to be cut until late in the year. Given that, interest rates are not expected to fall significantly in the short to medium term. This will mean more income than Council received from interest than is typically expected, especially in Years 1-2 of the Long Term Plan.
User Fees and Charges	User charges defined in the Revenue and Financing Policy will be achievable and will increase at the rate of inflation over the 10 years of the LTP. Fee income such as Building Consent fees and Transfer Station	**Medium-High** Inflation and current economic conditions increase the level of uncertainty.	That we do not receive the level of income that we have planned for. That our income has not been set at a level that adequately takes account of all cost drivers other than inflation (e.g.	If user fees and charges are less than we have assumed the result would be lower than forecast income. If fees revenue was 1% lower than we have assumed, this would equate to $77k in reduced income.	Our fee projections have taken into consideration the potential impact of the COVID-19 related economic recession and our recovery from that. If the economy is further impacted, or the recession is greater or more prolonged than we have assumed, this may negatively impact our fee projections.

	Charges are subject to market influences, but our income is assumed to be stable.	Continued high levels of inflation, or rising interest rates, influence our community's ability to afford current fees and charges.	increased costs of delivering the service) or other factors that could negatively impact fee income (e.g. economic recession).	If fees and charges are more than we have assumed, this would result in more income than we have forecast. If fees and charges do not increase at the rate of inflation, income would be less than we have assumed. Not inflating fees and charges would equate to approximately $77k in Year 1.	If the effects of the recession are less than we anticipate, or our recovery is faster, this could positively influence our fee projections. Economic recession as a result of COVID-19 or other factors could impact income from user charges across a number of activities. Changes in legislation could also impact our ability to collect fees. For example, if a change meant we were restricted on how we set fees for an activity (e.g. liquor licensing). Increasing fees and charges beyond the rate of inflation could occur if there were cost drivers other than inflation. Council will be reviewing the Revenue and Finance Policy, and undertaking a Rating Review, in Year 1 of the LTP to ensure that public private benefit, and the use of financial tools such as fees and charges, remain appropriate.
Financial Contributions	Revenue generated from financial contributions will reduce to levels less than the last three years. This is due to to a slowing of the local development activity	**Medium-High** Current levels of inflation and economic conditions increases uncertainty around factors	That financial contributions are less than we have assumed.	If financial contributions are less, Council may have to fund the difference, at least in the short term, for some development projects. This could increase the rates required.	Our projections have taken into consideration the potential impact of the current economic challenges facing the country and our recovery from that. Any economic recession could reduce revenue generated from

	that has been in evidence in 2024. The Proposed Wairarapa Combined District Plan is currently under consideration so no assumption about increased revenue being generated as a result of changes made in the plan, has been made.	that influence financial contributions, such as our local economy; household and population growth.		Revenue of $2.0m is anticipated from financial contributions each year of the LTP beyond year three. Some proportion of this is at risk if development is less than anticipated. Year 1 reflects a reduction from current levels, while years 2 and 3 anticipate additional contributions from large proposed developments. If development activity exceeds our expectations, contributions could be more than we have assumed. This would increase Council reserves and Council's ability to invest in new assets.	development contributions if development slows or stalls. If the economy is further impacted, or there is a prolonged recession, and development slows or stalls, this may negatively impact our financial contribution projections. If the effects of the recession are less than we anticipate, or our recovery is faster, and there is more development, this could positively influence financial contribution projections.

NZTA Roading Subsidy and Roading Subsidy Income Levels	1. NZTA will continue to provide a share of the funding for all defined maintenance, construction and minor safety work for roads and footpaths. Their share is known as the Funding Assistance Rate (FAR) and has been advised as follows: 56% from 2024-27 Beyond that time frame we have assumed there will be no change. 2. Business cases for work that have been put forward to NZTA will be accepted for funding subsidy, and we will receive NZTA funding at the level we have assumed. Completion of cyclone recovery projects has been allowed in year 1 with the subsidy rate of 76% assumed.	**Medium** COVID-19 increases uncertainty of the current advised FAR commitment. Should the economy be further impacted or our recovery slower, NZTA may review its funding criteria and/or level of funding commitment.	That NZTA's funding rate, beyond the current 3 year programme will be less than we anticipated. That our business cases are not accepted. That NZTA funding criteria changes and the cases we have put forward and assumed funding for will no longer meet their criteria. That we will not be able to complete the full work programme (e.g. if there was another lock down period), which would reduce the level of funding we receive from NZTA. Mataikona road resilience work has been allowed across the ten years of the LTP but the business case has not yet been accepted by NZTA.	If the NZTA subsidy is less than we have assumed the result would be lower than forecast income. Every 1% drop in NZTA funding equates to $160k in reduced income. This could mean we would need an additional rates contribution to complete the programmed work. If the Mataikona Road work programme is not funded the Council will need to reassess whether to progress the work.	The revenue generated is dependent on work progressed and/or carried forward. If we are unable to complete the work that we have programmed, the income from this subsidy will be less than projected. The subsidy rate is reviewed every three years. It was reviewed in 2023 and is next due for review in 2026 The programme will be kept under review with Council decisions sought on changes to the programme should the subsidy level change.

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BORROWING					
Interest Paid on Borrowing	Interest paid on existing debt will average 4.8% from 2024/25. This is based on the current cost of debt the Council is paying and incorporates the mix of fixed and floating rate debt instruments. Interest paid on all new debt borrowed from 2024/25 will be 5%.	**Medium - High** Interest rates have been increasing since 2021. While most commentators are expecting interest rates to begin to fall in Q4 2024, there is a degree of uncertainty due to domestic inflation remaining high.	That interest rates will be higher than we have assumed.	**Higher interest rates:** Higher rates would result in increased borrowing costs for Council. In Year 1 of this Plan, an interest rate that is 1% more than we have assumed for borrowing would equate to increased cost of $560k. **Lower Interest Rates:** In current circumstances, there is a possibility that interest rates will fall faster than expected. If this was the case, the cost of borrowing would also decrease.	Interest rate hedging is used to fix interest rates for varying terms to reduce the impact of interest rate movements on Council borrowing. Economic conditions have seen interest rates on borrowing increase. As at February 2024 Infometrics projection is that the RBNZ will cut the official cash rate from August 2024. It is expected that cuts will be gradual. Given that, we expect interest rates on new borrowing, or borrowing coming up for renewal, to remain at current levels for the foreseeable future. The borrowing costs for projects has these higher rates built in. If rates do come down, the projects will become more affordable.

Repayment Periods	We will pay off all new debt within a 25 year timeframe.	**Low**	Repayment periods are shorter or longer than assumed. Council decides to depart from the assumed debt level. Council allows more exceptions to the 25 year timeframe for repayment of debt.	Any of these scenarios would impact the rates requirement. If repayment periods were significantly shorter this could result in higher repayments, negatively impacting rates required. It would also mean debt would be repaid more quickly than anticipated. The current generation could pay more than their share for the loan funded asset, reducing the cost for future generations. A longer repayment period could mean debt would be spread over a longer period, reducing payments and positively influencing cashflow in the shorter term, but it would also take longer to repay debt. The current generation could pay less than their share for the loan funded asset, moving this cost to future generations. Changing the duration of repayment periods could also potentially impact on Council debt ratios.	The Council's Financial Strategy sets a constraint the debt level and requires debt to be repaid and charged to the activity that has benefitted from the application of the debt funding.

NZ Local Government Funding Authority	MDC will continue to be a shareholder and borrower from New Zealand Local Government Funding Authority (LGFA) which will continue to provide debt funding at competitive interest rate margins.	**Medium** Inflation and current economic conditions increase the level of uncertainty compared to previous LTPs.	That MDC is called upon to be a guarantor - as an LGFA shareholder, MDC is obliged to be a guarantor in the event of default of one of the other shareholders. That NZLGA is impacted by the current economic climate and unable to offer loan funding, or at rates that are more competitive than the general market.	The proportion each guarantor Council is required to pay is relative to shareholding. In the very unlikely event that the guarantee was called on, for every $100K that might be defaulted, MDC would be required to pay $440. If the LGFA was no longer to participate in the debt markets, MDC would need to explore alternative borrowing options. Market interest rates are expected to remain low for at least the first three years of the LTP, but alternative lenders are unlikely to be able to offer comparable interest rates to the LGFA, resulting in increased costs.	In the current economic climate, the risk of the Council's guarantor status being called on might increase, however given the LGFA has numerous financial controls in place, this risk is considered low.

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INFLATION					
Inflation Rates	Inflation will be applied in line with Business and Economic Research Limited (BERL) rates across the ten years of the Plan, except where we have alternative information that better informs decisions regarding inflation. TO INSERT: table in an attachment that includes BERL rates for Year 1-10.	**Medium-High** Changing economic conditions increase the level of uncertainty compared to previous LTPs.	That inflation is significantly higher or lower than expected. Most of the Council's operating costs are influenced by cost escalation, either through contracts or employment agreements.	Higher inflation than used in the model would result in increased costs. Lower inflation would result in reduced costs. Either could have a flow on effect for rates, fees and/or charges (i.e. increase or decrease) or for work programmes (e.g. if costs were higher, to maintain affordability, we may need to deliver less).	We will continue to monitor the economy and respond accordingly.

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CONTRACTS					
Operational Contracts	There will be no significant variations in terms of price (other than inflation) for operation and maintenance contracts.	**Medium** Inflation and current economic conditions increase the level of uncertainty compared to previous LTPs.	That there are significant variations in contract costs.	Increased costs would result in increased expenditure for Council. This could have a flow on effect for rates and/or fees and charges.	Economic recession could affect contractors. This could lead to requests for additional support and/or the need to secure new providers.
Capital Project Costs	Costs of major capital projects will not vary significantly from estimated costs that have been budgeted for.	**Medium** Inflation and current economic conditions increase the level of uncertainty compared to previous LTPs.	That the cost of major capital projects is more than we have budgeted for. Delays occur in delivering the capital programme and community expectations are not met.	Increased costs would result in increased expenditure for Council. This could have a flow on effect for rates and/or fees and charges.	Economic recession could impact supply and demand. This could see some reductions if contractors are looking for work. This could also see some increases in the cost of materials if they become less available. Slippage in the delivery programme may increase costs, therefore regular reporting to Council and Committees will occur and risk management plans will be developed for major projects and programmes of work. Adequate contingency will be built into projects and programmes of work. We will apply cost adjustors, including inflation adjustors, to

					projects and programmes in outer years of this plan. The proposed capital programme for the life of this plan is larger than three years ago. The larger capital programme reflects some new projects, some having funding assistance from the government, along with the routine subsidy funding for the roading programme. The programme includes several large capital projects eg the library and town hall which require less capacity to deliver on once tenders are secured. However the infrastructure renewal programme will be dependent contractor availability. The Council has been steadily improving its performance at delivering on the capital programme over the last three years and has the project management capacity to deliver on the proposed programme. Contractor availability and longer timeframes than anticipated for gaining the appropriate consents may however delay the programme. Completing the programme over a longer timeframe will add some inflationary cost to the projects. Good planning and clever procurement will minimise this risk.

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SIGNIFICANT ASSETS					
Asset Valuations	Infrastructural assets are scheduled to be revalued 30 June 2026. Independent valuers are used to provide the valuations. The value escalations will reflect increases in the replacement and depreciated replacement costs of the Council's assets. Land and buildings assets will be revalued as at 30 June 2024 and every 3 years after that.	**Medium-High** Inflation and current economic conditions increase the level of uncertainty compared to previous LTPs.	That actual asset revaluations are significantly different to what is forecast.	If valuations are more or less than has been allowed, depreciation costs in subsequent years will vary from the values that have been allowed in the LTP.	Economic recession could impact valuations.
Investment Properties	The value of investment properties will remain static given our small investment portfolio.	**Medium** The timing of sales, and the value of our investment properties at time of sale, is uncertain. Results of our Property Stocktake and Strategy work are not known at this point.	That the value of investment properties decreases or increases.	A decrease in asset value could result in reduced income for Council when the property is sold. An increase in asset value could result in increased income for Council when the property is sold. Income from the sale of investment properties is not relied on for the Council's operational funding.	Economic recession could impact the valuation of investment properties. Revaluation changes have not been allowed for.

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LEGISLATIVE					
MDC as an Entity	Amalgamation will not happen during life of the Plan.	**Medium**	That reorganisation occurs and results in alternative operating structures, or amalgamation is reconsidered.	If amalgamation did occur within the life of this LTP there would a range of associated costs, for example transition costs. There is also the potential for efficiency gains and higher levels of service to be achieved. Boundary reviews and changes would also require a review of this LTP with associated community consultation.	Shared services across the three Wairarapa Councils, for example solid waste contracts and the Wairarapa Combined District Plan, are likely to continue. Council activities that are shared services would be easier to transition into a bigger organisation if amalgamation did occur. Amalgamation could have economies of scale for the three Councils and could result in enhanced Levels of Service in some activity areas. Risk and mitigation plans will be kept under review.
Resource Consents	There will be changes to the condition of existing and renewed resource consents during the ten years of this LTP.	**Low**	That consent conditions will not change, or that change will be more or less restrictive than we anticipate.	If change is less restrictive than we have assumed, some planned projects or changes may not be required, or not required as soon as we have scheduled. If change is more restrictive than we have assumed, this may require further investment from Council, or impact on our ability to continue to provide the service or activity.	We are planning for change to the Henley Lake water intake consent and our Water Supply consent during the life of this LTP. We are actively participating in changes to the Natural Resources Plan.

Water Reforms	1. MDC will continue to provide three waters services and maintain associated assets for our community. 2. There will be probable second order impacts of three waters reform.	**High**	Another entity becomes the provider of the three water services and Council ceases delivery of these services. Second order impacts could include things like: private and/or community water supplies failing to meet their regulatory obligations; or advocacy for amalgamation of remaining functions.	Services would continue to be provided to the community via another entity. There are financial and operational implications for the Council relating to the size and scale of the business. The three waters make up close to 30% of the Council's operating budgets, so their loss will result in the organisation reassessing its delivery capabilities and support structures in all other activity areas. Second order impacts could include: Council could be required to take over management of private and/or community water supplies that can't meet their regulatory obligations. Amalgamation of Councils remaining functions with other Wairarapa Councils could be considered.	Three waters provision is currently being considered by central government. We expect to know more about the future of three waters services by the end of 2024. Council will assess second order impacts as part of its analysis of the proposal when that is received.

Resource Management Act Reform **SUBJECT TO AGREEMENT WITH CDC/ SWDC**	Through the review of the Wairarapa Combined District Plan (WCDP), we will adapt the district plan to reflect RMA reforms.	**Low**	The RMA reforms being pursued by the government suspends or slows the District Plan review.	If the review is suspended or takes longer, then the issues causing frustrations within the planning environment will continue. We may need to suspend our contract for service for review support and there will be some savings; or we may need to extend this contract, adding to costs. The Council could change tack and undertake a Plan Change for urgent matters while the reforms are progressed through to enactment. If the plan change was pursued the costs of the plan change would be covered by the existing District Plan review budget.	Further RMA reforms are being considered by the new government. The Randerson Report recommends the replacement of the Resource Management Act 1991 with two separate pieces of legislation; a Natural and Built Environments Act and a Strategic Planning Act. Those reforms have not found favour with the new government, but there remains a need for legislation to address issues related to climate change adaptation and the managed retreat from areas threatened with inundation. The Wairarapa Combined District Plan review process is well advanced and should progress to operative in 2025.

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LEVELS OF SERVICE					
Levels of Service	LOS will be maintained or improved for most activities in line with this LTP. Some changes are proposed for consultation.	**Medium-High** Inflation and current economic conditions increase the level of uncertainty compared to previous LTPs.	That there will be a change to LOS during this LTP that is outside the scope of the Plan.	An increase in level of service for any activity could require additional funding from our community. A reduced level of service could reduce costs for our community. Specific implications of any LOS change would depend on the service that changes.	Increases in LOS are planned for the Civic Centre, Library, Town Centre and Animal Shelter (to meet increased regulatory requirements). There may be pressure to reduce some LOS to reduce costs/ rates impacts. There could also be demand for other changes to LOS (e.g. increase operating hours of some facilities/ services or greater focus on/investment in economic development to support recovery).

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HUMAN RESOURCES					
Human Resources	MDC will be able to attract and retain appropriately skilled staff to deliver the planned work programme.	**Medium**	That MDC will not be able to attract appropriately skilled staff to deliver the planned work programme.	Planned work programmes and or service levels could be impacted, and/or external contractors would be needed to progress work. Contractor costs could impact the overall cost of programme delivery.	We have experienced challenges recruiting in some areas, engineering and planning in particular where there is a national shortage of experienced and suitably qualified staff. A future pandemic may impact on staff capacity to deliver the work programme.

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NATURAL ENVIRONMENT					
Natural Disasters	No natural disaster will occur that causes widespread or significant damage to Masterton’s infrastructure.	**Medium-High**	That a significant natural disaster will occur.	This could disrupt the community with the level of disruption dependent on the event and consequences of that~~.~~ Council could need to borrow substantially as a result of an event – e.g. if assets were lost. The flow on effects from a serious event could mean Council is not able to raise rates and may need to borrow more.	Council carries insurance on most assets with the intention of mitigating the financial impact of natural disasters. The Council has a Flood Damage Reserve to contribute towards our share of remedial work on roads and bridges in the event of storm or other damage from natural disasters. The fund has been drawn on heavily in the last two years and will be replenished from funding allowed in the LTP. Work is currently underway as part GWRC’s flood protection programme which could see the Council contributing to Waipoua River flood protection works. There is funding allocated in this in the LTP. Council is also developing a Stormwater Strategy that will assist in prioritising work that will contribute to a reduction in flooding risk for our community.

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INFRASTRUCTURE					
Water Resilience	Council will invest in increased water storage, increasing the capacity of its own raw water reservoir and treated water capacity. The prospect of a community water storage scheme is not factored into the LTP.	**Low**	That Council revokes its decision to invest in greater water storage.	Water conservation and availability will become a bigger challenge for our community.	The budget includes provision of $7 million in Years 2 - 4 for building of raw water storage reservoirs and a new treated water reservoir in years 5 and 6. Council has signalled an intention to support (by way of loan) a scheme to provide process water in the Waingawa industrial area.