2021-31 Long-term plan

DRAFT significant forecasting assumptions

COVID-19

This LTP assumes COVID-19 Alert Level 1[1] for Year 1 (July 2021-June 2022). From Year 2 (2022/23) each activity area has based their budget on a post-COVID-19 'new normal' operating context.

We have forecast a decrease in revenue in year one at our venues (FMG Stadium Waikato, Claudelands and Seddon Park), our community facilities, and through our consenting activities.

Given the unpredictable nature of this virus, there is a high degree of uncertainty in relation to this assumption. COVID-19 could still be in our community and result in the country or the Waikato region moving into higher alert levels. The impact of this would be a restriction on people attending major events and restrictions on commercial activities. This would reduce our revenue forecasts.

THREE WATERS REFORM

The Government is implementing a package of reforms to the three waters regulatory system, which are designed to:

- Improve national-level leadership, oversight, and support relating to the three waters – through the creation of Taumata Arowai, a new, dedicated Water Services Regulator from July 2021
- Significantly strengthen compliance, monitoring, and enforcement relating to drinking water regulation – through the creation of a new Water Services Bill and revised Drinking Waters Standards of New Zealand that are expected to come into effect mid 2021
- Manage risks to drinking water safety and ensure sources of drinking water are protected
- Improve the environmental performance and transparency of wastewater and stormwater networks.

We expect that the regulatory reform and the establishment of Taumata Arowai will change the way we will need to demonstrate regulatory compliance, assess risk relating to source and treated water quality and require licencing and authorisation of water supplier entities and individuals involved in providing three water services. As legislative changes relating to regulatory compliance are still in progress, the operating and capital budgets have been developed to anticipate likely new regulatory requirements where possible, however if the new regulatory requirements are unknown then budgets have been set to maintain current service levels under the current regulatory framework.

In addition to regulatory reform, Government has initiated a reform process for service delivery of three waters. While the Government's starting intention is for publicly-owned multi-regional models for water service delivery (with a preference for local authority ownership), final decisions on a service delivery model will be informed by discussion with the local government sector and the work of the Joint Steering Committee. As details of proposed new entities are still unknown, it is assumed that Council will continue to provide water, wastewater and stormwater services for the duration of the 2021-31 LTP, however this assumption has a high level of uncertainty.

We have signed a Memorandum of Understanding (MoU) with Government to join the first phase of the Government's three waters reform and have received $17.46M in stimulus funding to support the delivery of specific three waters projects.

The MoU commits us to a collaborative process with Government to explore structural reform in the waters sector, particularly a multi-regional approach to three waters

[1] New Zealand Government. https://covid19.govt.nz

management and delivery of better health, economic, cultural and environmental outcomes.

The $17.46M three waters stimulus includes $500,000 to fund the early participation in the reform programme, to cover the engagement of additional resource to collate information, provide advice and backfilling of existing roles. Given the complexity of the three waters reform investigations and the time involved to participate and influence outcomes, it is highly likely that further funding will be required during the period of the 2021-31 LTP. At this time no budget allowance has been made for any further three waters reform project funding, in part because there have been suggestions that further Government funding may be available to support councils as the reform programme progresses. The funding needs of the three waters reform project will be monitored and if further funding is required this will be presented to Council prior to the finalisation of the 2021-31 Long Term Plan.

CLIMATE CHANGE

The Ministry for Environment has prepared climate change projections for the Waikato region that provide a range of scenarios for what the future climate may look like for Hamilton. The predicted impacts include:

- Increase in average temperatures, compared to 1995, of between 0.7˚C and 1.1˚C by 2040 and of between 0.7˚C and 3.1˚C by 2090
- Winter rainfall in the Hamilton area is expected to rise by 4% to 8% by 2090, whereas spring rainfall is projected to decrease by 6%. The variability could lead to more extreme weather events such as drought and flooding
- There are also potential increases to the intensity of storms, wind extremes and thunderstorms.

These predicted impacts are likely to result in more frequent droughts and flooding. The topography and relatively low natural hazard risk in Hamilton is considered an advantage compared to other parts of the country (such as coastal communities) which are more directly impacted by changes to climate. However, Hamilton may experience changes to our economy, population growth or community wellbeing as a result of impacts on our surrounding council areas.

A programme of funded work in 2020/21 is underway to further understand how Hamilton may be impacted by the physical changes, the impacts of transitioning to a low carbon future and by the changes occurring in the wider region. The outcomes from the work programme will be considered in subsequent LTPs.

POPULATION GROWTH

Population growth has been forecast for territorial authorities in the Waikato by the National Institute of Demographic and Economic Analysis (NIDEA), University of Waikato. We have assumed the NIDEA low projection (2020) to prepare this LTP.

Total population at 30 June is projected to be:

2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
180,741	183,036	185,377	187,741	190,090	192,422	194,744	197,038	199,276	201,483

New households at 30 June are projected to be:

2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
1177	1215	1279	1274	1232	1221	1295	1300	1246	1248

Notes that updated NIDEA growth projections are expected in March 2021 and any changes arising from this will be incorporated in the final population growth assumption outlined in the LTP.

Population projections have been used to help prepare 30-year demand forecasts for the Infrastructure Strategy.

Growth infrastructure investment

It is anticipated that all growth cells will be developed by us in partnership with those providing privately funded infrastructure.

As our current financial constraints do not allow for all growth infrastructure in all areas zoned for development, third party funding has been anticipated across all growth cells through the vesting of developer-provided infrastructure and the use of private development agreements (PDAs). Council will continue to explore the use of new funding and financing tools such as off balance sheet structures provided by the Infrastructure Funding and Financing Act.

It has been assumed we will generally make upsizing contributions to developers on an incremental marginal cost basis where these are required.

SETTLEMENT PATTERN

Hamilton Urban Growth Strategy, Future Proof Growth Strategy, Operative Waikato Regional Policy Statement and the Operative District Plan (ODP) outline the existing long-term settlement pattern for the city.

The 2021-31 LTP has been developed based on the following land use assumptions.

Citywide development

Urban regeneration will focus in and around key nodes as identified in the ODP, areas of high accessibility and within walkable catchments of the Central City, major centres and planned rapid and frequent transport in accordance with the National Policy Statement for Urban Development.

The programme of infrastructure investment at a strategic level including treatment plant headworks and bulk reticulation will support both greenfield and urban infill growth.

Infill within the existing established areas of the city will be progressed in parallel with greenfield areas and will accommodate approximately 50 per cent of Hamilton's new dwellings. Further infrastructure investment will be required for intensification once areas for accelerated development are identified. This additional investment will be the subject of subsequent LTPs.

Rototuna

Rototuna is to remain the city's primary growth cell for the early years of the LTP with investment prioritised on completing strategic infrastructure as the need arises. Residential development in Rototuna is expected to be completed within this 10-year period.

Peacocke

Peacocke Stage 1 residential development will continue and is expected to be completed within this 10-year period, with no further strategic infrastructure investment required.

Peacocke Stage 2 is poised to become the city's primary growth cell for residential development following completion of the Housing Infrastructure Fund key strategic transport and wastewater infrastructure in the northern part of the cell.

Rotokauri

Residential growth in Rotokauri Stage 1 is currently limited by the need to invest in strategic stormwater and transport infrastructure.

Staff continue to work with land developers as well as Crown Infrastructure Partners for innovative infrastructure funding, financing and delivery options.

A development which was initially approved as a Special Housing Area in Rotokauri Stage 2 (MADE Development) has now been zoned through a Private Plan Change.

Ruakura

The Ruakura growth cell in the precinct around the Inland Port Development has been enabled through private, Hamilton City Council and central Government funding through the Provincial Growth Unit and Crown Infrastructure Partners.

Te Rapa North

Council is progressing a plan change for Te Rapa North to change the zoning to Employment land. No substantial growth is forecast due to limitations associated with infrastructure capacity.

The Te Awa Lakes Private Plan Change has now been approved and consent is being sought for other parts of the area that will require infrastructure investment.

Temple View

No substantial growth is forecast No substantial growth is forecast due to limitations associated with infrastructure capacity.

City boundary change

Hamilton City Council and Waikato District Council have a Strategic Boundary Agreement that provides for boundary extensions in relation to the growth areas of HT1 (Horsham Downs), R2 (Ruakura North) and WA (Whatawhata Road) when required by the City.

Any boundary change will require decisions of both Hamilton City Council and the neighbouring district council, a Local Government Commission process, with any financial considerations reported in a future Annual Plan or LTP.

REVENUE

Ratepayer growth

Ratepayer growth has been calculated based on assumptions on the increase in the number of households as forecast by NIDEA low. The relationship between ratepayer growth and the forecast growth metrics is complex. One household does not represent a one to one relationship with one rating unit. Ratepayer growth has been calculated based on the historic trends in the relationship between these forecasts and actual rating unit growth over the previous four years.

As a result of this complexity there is a high degree of uncertainty around these forecasts. The percentage increases and revenue growth below represent the expected increase from the previous year due to growth in the general rate, UAGC, and compliance rate.

	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Year 6 26/27	Year 7 27/28	Year 8 28/29	Year 9 29/30	Year 10 30/31
Percentage increase	2.05%	2.14%	2.17%	2.23%	2.18%	2.04%	1.99%	2.07%	2.03%	1.91%
Additional revenue ($000)	4,105	4,773	5,171	5,708	5,965	5,986	6,225	6,928	7,292	7,329

Development contributions

Future revenue has been projected using the Development Contributions (DC) Model.

The DC revenue assumption also considers current payment patterns, remissions and takes consideration of growth modelling error margins.

DC revenue is estimated to be:

	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Year 6 26/27	Year 7 27/28	Year 8 28/29	Year 9 29/30	Year 10 30/31
Revenue estimate ($000)	34,283	36,611	38,007	40,748	41,339	39,324	39,943	39,389	41,254	41,429

Should Hamilton grow more quickly than expected, then DC revenue is likely to exceed these expectations. However, the increase in revenue will be offset over time by a need to accelerate growth-related core network infrastructure.

Conversely, if growth is slower than expected new infrastructure may be deferred until needed, and over time this will offset the loss of projected revenue.

In cases where infrastructure cannot be deferred, infrastructure is supplied ahead of need and the costs will be recouped as the demand (and DCs) is realised.

EXPENDITURE

Cost of growth

As Hamilton grows, costs increase for some services. We have assumed increases for contract escalations relating to the growing number of households as forecast by NIDEA low. This occurs only where the supplier agreement includes a set number of households and a contracted escalation if the number of households increase (an example is the household refuse collection contract). Many contracts do not include a contracted escalation clause.

Further consequential cost of growth will be included in relevant activity budgets to reflect the cost of maintenance and operating new assets that are created.

Savings

We have budgeted for savings for over the 10 years of the plan, with a total value of $106 million (see table below). This Long-Term Plan assumes these savings will be realised.

We expect to make these savings through digital-enabled business transformation, property savings, strategic procurement and capital programme optimisation. It is our intention that savings will be achieved without changing the services the community receives.

Given the size and diversity of our activities, along with opportunities to partner with central and other local government, business and the community, we are confident these can be achieved.

	Savings ($000)
Year 1 2021/22	4,733
Year 2 2022/23	5,984

	Savings ($000)
Year 3 2023/24	7,274
Year 4 2024/25	11,698
Year 5 2025/26	11,991
Year 6 2026/27	12,291
Year 7 2027/28	12,610
Year 8 2028/29	12,951
Year 9 2029/30	13,300
Year 10 2030/31	13,646
Ten year total	**106,478**

Risk and sensitivity

We have identified that the majority of these savings will be generated from four areas:

- digital-enabled business transformation
- property savings
- strategic procurement
- capital programme optimisation.

Over the next 10 years we have budgeted $60.5 million of capital investment in information services renewals and upgrades designed to help digitally transform the Council. This investment is expected to achieve long-term, sustainable savings, enabled by technology. It is expected that these savings will begin to be realised from year one of the plan, and will consolidate from year three onwards as more end-to-end processes are automated. We expect digital-enabled business transformation will deliver the largest proportion of savings over the 10 years.

We expect to realise savings from changing the way we utilise physical space by adopting new ways of working, including but not limited to redesigning work spaces to enable agile working, enabling increased remote-working, exploring options for consolidation of operation worksites and increasing utilisation of community-based facilities.

We are in the process of moving to a strategic procurement model which would see greater centralisation of procurement functions. Moving to a strategic procurement model is expected to deliver savings through, process improvement, negotiated savings, rebates and hard cost avoidance.

We are forecasting our biggest ever capital programme and with that comes new opportunities to gain efficiencies through scale and new procurement opportunities. We are rethinking the way we currently deliver our capital programme to drive a focus on realising these opportunities. This means new assets are likely to cost us less while still delivering planned service levels. Through this opportunity we expect planned savings in operational costs will come from reduced interest and depreciation costs. We have observed larger councils achieving procurement efficiencies which we are yet to access. We recognise that to realise these savings will have some challenges and therefore note a moderate degree of risk in achieving them.

In the case that we are unable to achieve all of our savings targets there will be consequences that could affect rates, service levels or capital expenditure. However, we have decided that we will not allow service levels to be reduced in this Long-Term Plan and that this principle is prioritised over the achievement of savings.

We have modelled the impact of only achieving a portion of the savings. If we only saved 50% of the budgeted savings the impact of this would be an increase in our debt to revenue ratio, over the 280% limit in 2025/26. To stay within our financial strategy limits in all years we could increase city rates by an additional 1% in 2020/21 or decrease unsubsidised capital spending by $2.5 million for each year of the 2021-31 Long-Term Plan.

Inflation treatment

Separate inflation rates have been used for the operational and capital budgets due to the different cost drivers that impact these types of cost.

Business and Economic Research Ltd (BERL) were contracted on behalf of the local government sector to provide inflation forecasts for the period of this LTP. These forecasts are related to the types of costs that the local government sector is likely to incur.

BERL has provided projections of scenarios as to how the New Zealand economy will respond to the impact of the COVID-19 pandemic. The scenarios are:

- BERL mid-scenario – considered to be a likely outcome relevant to most regions of New Zealand
- Stalled rebuild scenario – where GDP and employment grow more slowly
- Faster rebuild scenario – where GDP and employment grow more rapidly.

The Council has assumed the mid-scenario for operating inflation rates. The mid-scenario is considered to be the most likely outcome relevant to most areas of New Zealand. Further comfort is provided as cost adjustors used in all three scenarios are consistent with economic forecasts published by the Reserve Bank of New Zealand, the New Zealand Treasury and BERL.

Operating expenditure and revenue inflation used in financial modelling is:

	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Year 6 26/27	Year 7 27/28	Year 8 28/29	Year 9 29/30	Year 10 30/31
Operating inflation	3.60%	2.90%	2.50%	2.50%	2.50%	2.50%	2.60%	2.70%	2.70%	2.60%

The Council has assumed the faster rebuild scenario for capital inflation rates. The faster rebuild scenario is applicable to councils in areas that have relatively sound infrastructure but also expect to engage in significant infrastructure upgrades in the next decade.

Capital expenditure and revenue (capital subsidies, capital contributions) inflation used in financial modelling is:

	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Year 6 26/27	Year 7 27/28	Year 8 28/29	Year 9 29/30	Year 10 30/31
Capital inflation	3.30%	3.00%	3.00%	3.00%	3.00%	2.80%	3.00%	3.00%	3.00%	2.80%

Availability of contractors to complete capital programme

It is assumed there is sufficient capacity within the professional services and contractor market to undertake the capital programme.

There is a high degree of uncertainty around this assumption as there are high levels of forecasted capital expenditure from other central and local government agencies in the upper North Island as well as strong ongoing demand for new housing and development. The impact of this could be high as budgets may not be sufficient to undertake the works as planned. The capital expenditure inflation forecast above has included a higher inflation rate in its budget, based on BERL's faster rebuild scenario. This is to recognise the higher costs associated with the high demand for contractors.

Capital expenditure forecasts

The capital programme budgets have been developed using a base estimate plus a nominal contingency. This approach is consistent with previous LTPs and results in budget provisions which assume a risk management approach to actual costs.

Availability of resources to deliver service levels

We have assumed additional staffing resources are required to meet the higher demand of growth.

This includes both staffing associated with capital projects, consequential staff needed to operate the asset and indirect staff to support the greater corporate support activity a bigger city generates.

It is assumed all staff positions can be filled and maintained so we can deliver the proposed service levels.

Interest rates

We use Price Waterhouse Cooper (PwC) Treasury Division for advice on all aspects of our treasury management. We have policies in place providing direction in the management of risks associated with debt.

Council's interest rate risk, the risk of adverse interest rate movements, is mitigated by requiring at least 40 per cent (but no more than 95 per cent) of Council's debt to be at fixed rates with greater than 12 months to maturity. Council's Liquidity and Funding Risk, the risk that Council may not be able to access funds at the time that we need or at a cost no greater than the existing terms, is mitigated in two ways: firstly, by spreading the due dates of our debt per the policy; and, secondly, by ensuring we have access to additional undrawn funds.

The policy also outlines the financial institutions from whom Council can borrow and includes borrowing caps for all but Local Government Funding Agency (LGFA) and the New Zealand Government.

Being credit rated as AA- by S&P Global Ratings has provided the opportunity to access cheaper sources of debt. On average, the margin benefit is 20 to 30 basis points, for example if the market is 5.1 per cent then Council can borrow at 4.8 per cent.

Interest rates applying to debt are estimated based on current fixed rate contracts, forward looking market rates and expected credit margins.

The interest rate applying to cash investments is 0.5 per cent. It is estimated that the average cash balance of $50m will earn approximately $0.25M interest per annum.

The interest rates on borrowing used in this LTP are:

	Year 1 21/22	Year 2 22/23	Year 3 23/24	Year 4 24/25	Year 5 25/26	Year 6 26/27	Year 7 27/28	Year 8 28/29	Year 9 29/30	Year 10 30/31
Interest rates	2.40%	2.93%	3.04%	2.90%	2.94%	2.92%	3.07%	3.07%	3.07%	3.07%

These rates reflect the current S&P Global Credit Rating being maintained throughout the LTP. A change in rating up or down could be expected to impact on interest costs by approximately 0.05 per cent or 5 basis points.

ASSETS

Property investment

Expected return on investment in property is based on the objective of maximizing financial return. This is realised by operating property assets to achieve the market or better than market rates of return through maximum rental income, high levels of building occupancy and quality tenants. Rents have been set in line with prevailing market conditions.

Asset sales

The forecast financial statements include transactions to complete existing contracted asset sales. There are no other asset sales assumed.

No financial impact is assumed from minor assets sales (e.g. disposal of surplus operational assets).

Revaluation of non-current assets

Revaluations on property, plant and equipment have been calculated on the preceding year's balance as disclosed in the Statement of Financial Position. This includes an inflation allowance calculated based on Local Government Cost Index (LGCI) as listed in the Local Government Cost Adjustor Factor Forecasts 2020 Update from BERL.

Useful lives of significant assets

Assets are depreciated on a straight-line basis over their useful lives with annual depreciation expense included in the total costs for each significant service. We have made numerous assumptions about the useful lives of our assets. These will be disclosed in the depreciation note within the Statement of Accounting Policies included in the Prospective Financial Statements.

Acquisition of significant assets

Capital expenditure to replace existing assets (renewal projects) it is recognised that projects will be completed throughout the year. It is assumed half of those projects are completed within the first six months. As such, depreciation is forecast based on six months' depreciation for renewal projects in the year the renewals are first budgeted.

For each new capital project, staff have assessed the expected completion date for the project from which time the assets are depreciated.

Depreciation is applied based on the estimated useful life of the asset, consistent with the accounting policies.

Capital expenditure to replace assets (renewals) is primarily funded from rates, and capital expenditure to improve levels of service and growth is funded by loans. Some capital expenditure is also funded by subsidies, development contributions and grants.

Seismic rating of Council buildings

A programme of prioritised seismic assessments on Council buildings has been carried out over recent years on Councils building portfolio. Significant buildings that require further seismic assessment are the Brian Perry Stand at FMG Waikato Stadium and the Chimpanzee House at Hamilton Zoo.

Where a Detailed Seismic Assessment (DSA) has already been done on a building, this assessment is used to determine if a seismic upgrade is required. Asset Management Plans (AMPs) have included any known seismic upgrades needed to meet minimum legislative requirements. Where a DSA has not been done, no provision has been made for seismic upgrade.

Investment properties

We revalue investment properties on an annual basis and an annual gain on investment property values of 2.5% has been assumed in each year of this LTP.

Vested assets

The level of vested assets has been determined using growth expectations and then compared to historical trends for reasonableness.

ACTIVITY SPECIFIC ASSUMPTIONS

City planning and growth

Building control and planning guidance

Expected revenue is based on a combination of current growth projections and previous year actuals as approved by Council.

Transport

Elected Members have provided direction in the development of the Transport Improvement Programme that has informed additional capital and operational requirements. This aims to address services in relation to safety, micro-mobility, passenger transport and congestion.

Third party funding

We have assumed that operating and capital expenditure programmes which have in the past received Waka Kotahi NZ Transport Agency subsidies and/or satisfy the criteria required for subsidy, will continue to receive subsidy funding over the course of this LTP.

The Waka Kotahi NZ Transport Agency subsidy rates that have generally been applied have been at the subsidy rate of 51%.

Commuter parking

We are seeking community feedback on our proposal to introduce a paid commuter parking around the fringe of the central city. Our preferred option is to introduce paid commuter parking and we have assumed that this would generate an estimated $1.6 million of revenue per annum. This revenue would be used to fund public transport initiatives and finding other ways for people to get to and from work without needing their cars. Should the proposal not go ahead we will need to delay and reprioritise our spending on transport and mode shift projects. There is a low risk of impact on our overall Financial Strategy.

Three waters

Water safety plan

We have an approved Water Safety Plan that has been assessed by a Drinking Water Assessor and confirmed as implemented. This plan identifies potential risk associated with a water supply and details how those risks are managed. It is assumed that routine reviews of the water safety plan will not identify any significant changes to currently identified risk mitigations.

Water safety planning requirements are likely to be enhanced as part of Government water regulatory reforms. It has been assumed that the current approach to water safety planning will continue as the nature of the reform enhancements are unknown.

Drinking Water Standards

Our water supply is fully compliant with the current Drinking Water Standards for New Zealand 2005 (revised 2018) and part 2A of the Health Act 1956.

Taumata Arowai, the new Water Services Regulator, has indicated that they will be reviewing the current Drinking Water Standards of New Zealand and we expect changes to the way in which we report and demonstrate compliance. As it is unknown what changes could be made, we are not able to forecast the impacts of these changes on costs and levels of service.

LTP planning has generally been based on meeting the current drinking water standards, with the inclusion of some anticipated competency training requirements of the Government reform. There is a high level of uncertainty with this assumption.

Freshwater quality standards

Fresh water quality standards are changing. The government has recently released a revised National Policy Statement for Freshwater and Waikato Regional Council has progressed significant changes to the Regional Plan. It has been assumed that current resource consent conditions will continue for the remaining life of discharge resource consents. Resource consent conditions determine the level of infrastructure investment required. There is a medium level of uncertainty with this assumption.

Project Watershed

We have assumed contributions will be received from Waikato Regional Council for Project Watershed projects over the full term of this LTP as proposed in the Project Watershed 10-Year plan submitted to Waikato Regional Council. These contributions are sourced from a Waikato Regional Council targeted rate for Project Watershed. We will apply these funds to projects meeting the criteria set out in the Project Watershed agreement between us and the Waikato Regional Council.

Rubbish and recycling

Emission Trade Scheme and Waste Levy

The government set the rate of Emission Trade Scheme (ETS) and Waste Levy payable of waste disposed of nationally.

The central government Waste Levy Scheme will be increased, and scope expanded (all classes of landfills to be included) by 2023. There is also a proposal to review the Waste Minimisation Act, any review may have an impact on the allocation of waste levy fund contributions.

Current assumptions are that waste levy contributions will continue at current levels (including increases related to growth), over the full term of the LTP. The funds will be used to deliver on actions from the Waste Management and Minimisation Plan.

Visitor destinations

Hamilton Gardens parking revenue

We are seeking community feedback on our proposal to introduce a charge for car-parking at Hamilton Gardens from 1 January 2022. Our preferred option is to introduce a charge for car-parking and we have assumed that this would generate an estimated $500,000 of revenue per annum. Half of this revenue would be used to enhance existing services and facilities, and half would be used to fund new services and facilities. Should the charge for car-parking at the Hamilton Gardens not be introduced we won't have any funding to invest in new or enhanced services and facilities. There is a low risk of impact on our overall Financial Strategy.

Hamilton Zoo-Waiwhakareke Natural Heritage Park entry precinct

We have assumed $900,000 external funding to complete capital works of $5.7 million. Should the funding targets not be met then the development work would be adjusted to the funding available. There is a low risk of impact on our overall Financial Strategy.

Parks and recreation

Playgrounds development

We have assumed $600,000 external funding to complete capital works of $6.6 million. Should the funding targets not be met then the development work would be adjusted to the funding available. There is a low risk of impact on our overall Financial Strategy.

OTHER SPECIFIC ASSUMPTIONS

Infrastructure Funding and Financing Act

The recently enacted Infrastructure Funding and Financing Act (IFF) enables Council to access a new off balance sheet funding mechanism to support the delivery of infrastructure projects.

We are exploring many potential opportunities for the application of the IFF tool at Council, including the possibility of converting part of our current Housing Infrastructure Fund loan into an IFF arrangement for the Peacocke growth area; and using the IFF to provide significant off balance sheet funding and contribution to infrastructure costs, and as the basis of negotiating a private developer agreement in the Rotokauri growth cell for the major lead infrastructure.

We have not yet negotiated any IFF deals, as such, the financial forecasts do not currently reflect any potential off balance sheet funding arrangements.

Unquantified legal claims

This LTP does not assume any provision for legal claims which are currently in progress.

Future legislative change

The details of future legislative changes are unable to be anticipated with any level of certainty.

The information that has been made available through various policy announcements to date suggests that the potential risks to materially impact this LTP are moderate in scale. However, given the lack of detail available on future legislative changes and their timing our projects have been planned based on the current legislative regime.

Changes to other legislation, regulations or rules that affect how we operate (usually through requiring compliance with new and higher standards) cannot be anticipated at this point. As a result, this LTP has been developed based on current legislation, regulations, rules and policy.

Resource consents

It has been broadly assumed that the necessary consents will be able to be obtained.

The following key consents are planned for renewal:

- Wastewater Treatment Plant discharge – 2027
- Water Treatment Plant abstraction - 2044
- Hamilton Gardens water abstraction - 2034
- Comprehensive stormwater consent - 2036
- Crematorium emission consent – 2040

SENSITIVITY ANALYSIS

Inflation and interest

A variance in the LGCI operating expenditure rate of inflation by 1% would impact the budget by approximately $850,000 per annum (including staff costs). A similar variance in the capital expenditure inflation rate would impact the capital programme by approximately $3.5 million per annum.

A 1% variance to interest rates would increase or decrease interest costs by approximately $8.2 million per annum based on expected 2021/22 debt levels, assuming all of our debt is floating. We currently have 38% of our borrowings at fixed rates, therefore the impact of a 1% variance would be $5.1 million.

The impact of a 1% increase in inflation can be absorbed within the existing Financial Strategy limits for debt to revenue and balancing the books. The impact of a 1% increase in interest, or a combined increase in both inflation and interest would cause a breach in the balancing the books and debt limits. In the medium term (first three years of this Long-term plan) this is partially mitigated by the 38% of interest on fixed debt.

We would have to respond to such a large change in interest rates and inflation. This response would depend on any effects these factors had on population growth and associated investment.

Growth assumptions

In making these forecasting assumptions we have to be mindful the future may not unfold as expected. Many of our assumptions are based on our growth forecasts. As such, we need to prepare for variations to these.

Our current growth assumptions show unprecedented sustained growth over the next ten years. This matter has the greatest impact on our Long-Term Plan. It results in more expenditure to run the city, more capital expenditure earlier to provide for the growing city and more revenue to pay for it. Growth affects most of our assumptions and it affects our resilience to manage certain types of assumptions, for example climate change.

The Financial Strategy, based on the assumptions in this document, show that growth is affordable. To be prepared for the possibility of growth happening other than planned, analysis has been done on the effects of a 15% change in growth.

The forecast growth is based on the NIDEA low household growth series.

15% higher than forecast growth

Higher growth means more income from growth, particularly in terms of revenue from development contributions, rates and consenting processes. This helps pay for the higher everyday costs of running the city that more people create.

Based on the existing capital programme, Hamilton will be able to accommodate a larger population in the short-term. More infill housing will occur as a result. In time, capital projects currently beyond the ten years will need to be brought forward. A benefit of higher growth would be greater debt capacity for the next big spend when new growth cells need to be opened.

The graphs on the below show that if growth was 15% higher than assumed, surpluses will get stronger and debt capacity increase.

15% lower than forecast growth

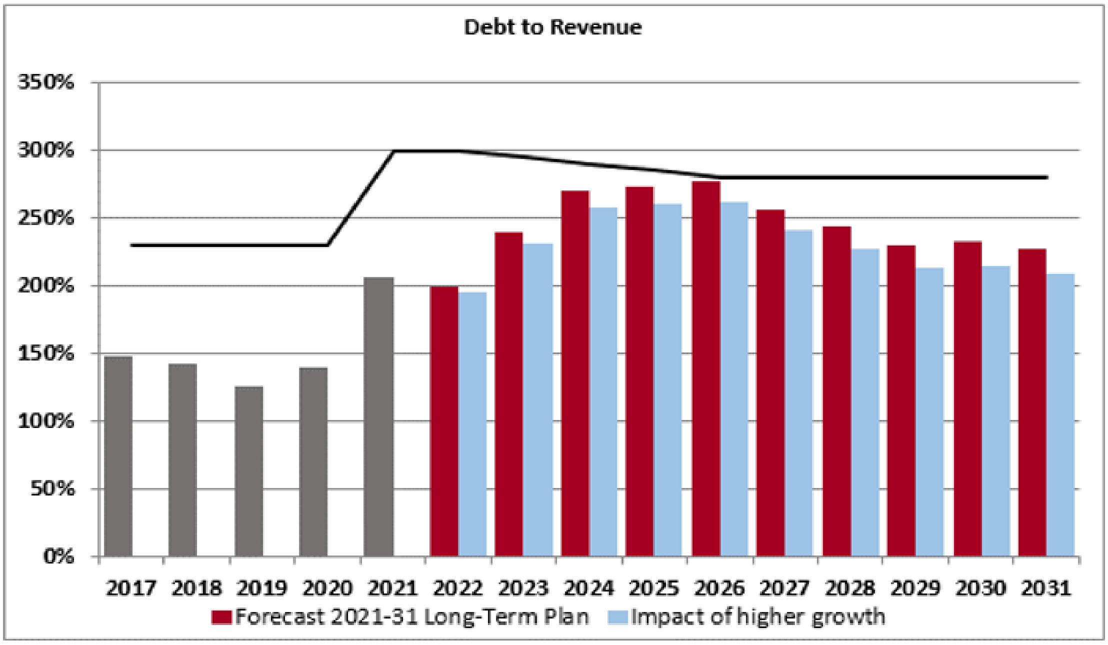
Typically, a recession is likely to occur in any ten year period, but they are almost impossible to forecast. If growth is lower than assumed our challenges will be greater.

With the Financial Strategy forecast to maximise the debt-to-revenue limit in 2025-2026 we are more vulnerable to drops in revenue. Less revenue from grants and subsidies and fees and charges could push us beyond our 280% limit in these years. The biggest impacts come from lower than forecast growth particularly in terms of development contributions, consent processing and rates. Costs are difficult to rein in quickly. The first three years of the plan has our biggest capital programme ever. This will be well underway before a change in growth would become apparent and once started, contracts and practical arrangements would make it difficult to stop.

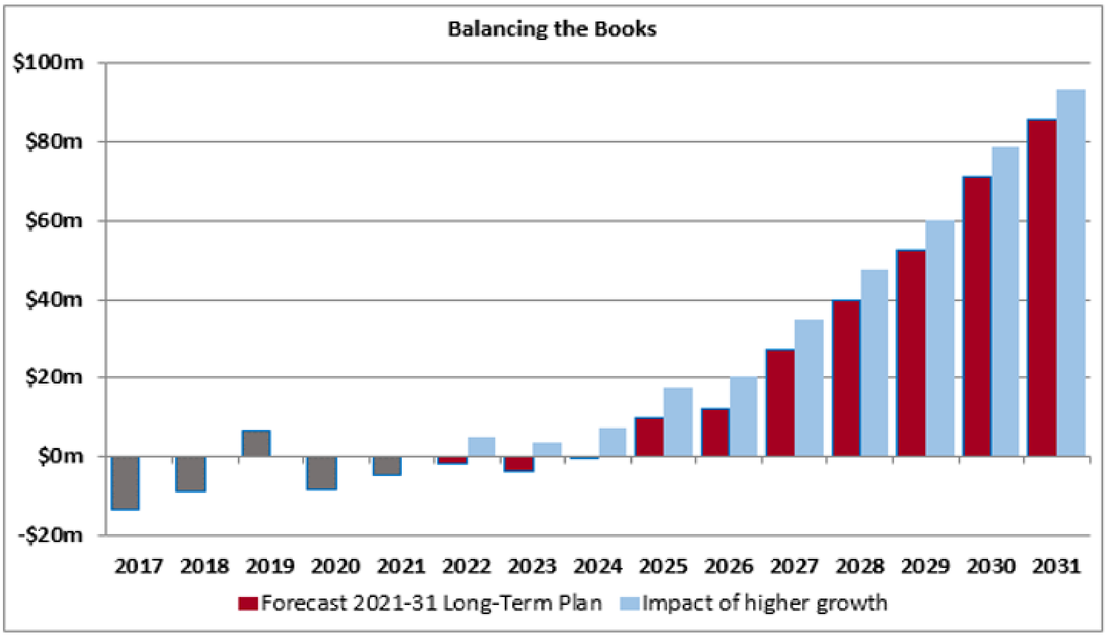
The effect of this on the Financial Strategy would be movements in the wrong direction. The graphs below model a lower growth scenario which shows deficits, meaning we would be borrowing more to pay for everyday costs. They also show the impact of less revenue on the debt-to-revenue graphs with two years of debt above the Financial Strategy limit.

We are aware of this risk and constantly monitor actual growth and revenue so we can respond quickly if required.

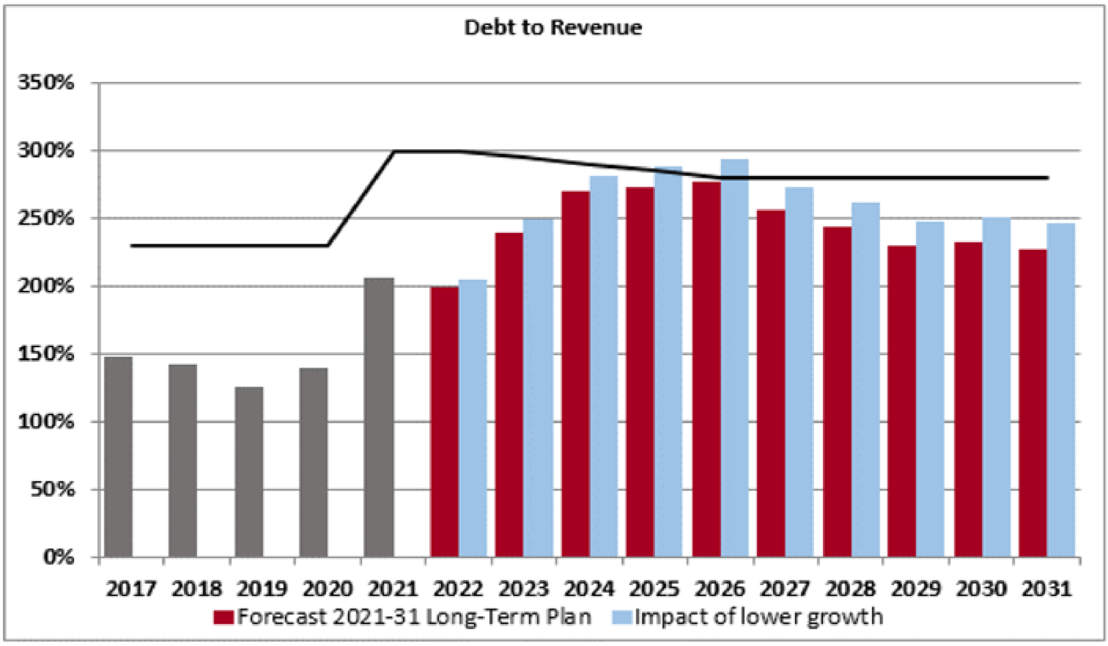
Debt-to-revenue: 15% higher than forecast growth



Balancing the books: 15% higher than forecast growth



Debt-to-revenue: 15% lower than forecast growth



Balancing the books: 15% lower than forecast growth