Financial Assumptions 2024-34

Forecasting Assumption	Risk	Level of uncertainty	Reasons and financial effect of uncertainty
Useful lives of significant assets			
The useful lives of significant assets with the appropriate depreciation rates are shown in the Significant Accounting Policies.	Assets need to be replaced earlier or later than budgeted	**Low**	The financial effects of the uncertainty are relatively low. If capital expenditure was required earlier than anticipated, then depreciation and debt servicing costs could increase.
It is assumed that the useful lives will remain the same throughout the 10-year LTP period.	The Council activities change, resulting in decisions not to replace existing assets. These may impact Council's cash flows.		If assets need replacing earlier, this could lead to the Council reprioritising capital projects to mitigate the financial impacts.
It is assumed that assets will be replaced at the end of their useful lives.			The Council has a comprehensive asset management planning process. Where a decision is made not to replace an asset, this will be factored into capital projections.
Depreciation			
Depreciation rates applying to existing assets are outlined in the Statement of Accounting Policies and is based on the assumed useful lives of assets. Depreciation on new major infrastructural assets is calculated on actual expected rates commencing from expected time of completion of the project. Depreciation is calculated on book values projected at 30 June, plus new capital.	The cost adjustor forecasts could be incorrect. Capital projects could take longer to complete than budgeted. To some extent these factors mitigate each other.	**Low**	The impact of applying incorrect depreciation rates is not considered material in the context of the LTP.

Fare revenue

We are assuming growth on public transport as outlined below.

Patronage Growth	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Bus	5.30%	4.70%	3.50%	3.70%	3.40%	3.50%	3.20%	1.90%	1.80%	1.60%
Rail	10.40%	5.50%	4.30%	4.60%	4.70%	4.50%	3.50%	6.10%	2.80%	1.30%
Ferry	3.00%	4.70%	2.70%	2.60%	2.60%	2.60%	2.50%	1.60%	1.50%	1.40%

Patronage Growth

We are assuming that patronage levels across the network will continue to remain around 10% lower than pre-COVID-19 levels for the first year of the LTP. Patronage will then increase on average by 4% per annum for the duration of the 2024-34 LTP. This means that patronage is likely to bounce back to similar patronage levels when compared to pre-COVID-19 levels (2018-2019 levels) from 2025-2026 onwards. There are signs this is happening already for bus patronage levels

Patronage growth in 2018-2019 (pre-COVID-19) was 4.6% across the network and much higher than the population growth of about 1.3%. COVID-19 and consequential structural changes to our economy, commuting patterns and lifestyles are expected to reduce patronage growth rates for the earlier part of the LTP planning period, but these effects will diminish over time. Specifically:

a) Growth in population after July 2024 is likely to get back to similar pre-COVID-19 levels than previously experienced and forecasted. This is primarily expected to be driven by migration levels are returning to pre-COVID-19 levels as Kiwis returning to NZ from overseas.

b) Higher levels of unemployment may still exist at the start of the LTP planning period, which could reduce travel demand.

c) It is likely that an increasing proportion of Wellington’s workforce will continue working from home on some (or all) days of each week or walk or cycle to work more than previously, reducing travel demand for both motor vehicles and public transport.

Rail

1) Ongoing work on improving our rail network means that rail service improvements will continue to attract more customers.

2) Integrated fares and ticketing (IFT) will generate new customers by improving the convenience and ease of travelling by train (and by using more than one PT mode). IFT will also increase rail revenue through better revenue protection.

Bus

1) A significant improvement to our bus network was implemented in July 2018 (with ongoing refinements) such that patronage will continue to increase because of the service improvements.

2) The current plan to transition to an integrated fares and ticketing (IFT) system is expected to generate new customers and facilitate travel on more than one PT mode.

3) The continued move towards more electric buses in the Metlink bus fleet is likely to be well received by customers and result in increased bus patronage growth.

Actual demand growth is less than projected growth as there exists uncertainty where growth is expected to occur within the region and changing in working pattern post Covid-19. This can have adverse impact on public transport service delivery costs.

Actual inflation exceeds budgeted inflation.

The risk of getting revenue assumptions too high can be profound on budgets.

Risk of getting the peak load estimates too low are likely to result in insufficient lead times to procure new buses and trains.

Medium

There is some uncertainty with long-term demand growth projections as the growth of demand is dependent on the future population, household, and employment growth in the region.

The council monitors growth and updates its long-term public transport plans to address variations in the rate or location of growth for public transport.

Preparing an annual budget and resetting growth rate assumptions combined with triennial review of LTP mitigates the risks.

Fare increase Fares are assumed to increase at a higher level of the consumer price index (CPI) for the first year of the LTP (FY25). From there the expectation will be to increase the fares at the level of the consumer price index (CPI) during the term of the LTP. While the public appetite for fare increases has been generally low post- COVID-19, increases to fares relative to the cost of living are likely to be necessary, as Council looks across all budget areas to recover from the increasing cost pressure over the last few years and the first few years of the LTP. Larger fare increases are not recommended as this would undermine Council's goals of increasing PT mode share, increasing accessibility and reducing greenhouse gas emissions.			

Waka Kotahi / NZ Transport Agency			
Waka Kotahi co funding is provided at the agreed financial assistance rate (FAR) for all eligible transport planning activities and there are no unexpected changes to FARs. All transport projects and services will receive funding assistance from the NZTA at the rate of 51% from the central government.	Changes in the subsidy rate and variations in criteria for inclusion in the qualifying programme of works. Lack of certainty over NZTA funding which puts risks that essential public transport projects and programmes are delivered as planned.	**Low in short-term** **Medium in long-term, up to 10 years**	If the level of subsidy decreases or ceases there needs to be either a reduction in the public transport work programme or an increase in funding from alternative sources. If FARs change, the Council will review budgets in subsequent Annual Plans. Noting that currently there as been no indication from central government of Waka Kotahi of changing Funding Assistance Rate (FAR)

Funding of decarbonising the bus and rail network – rail rolling stock			
The acquisition of the rail rolling stock includes an assumption that the Regional Council will receive 90 percent of the capital funding from Waka Kotahi and/or the Crown. No decisions or commitments have been received from The Crown/Waka Kotahi for this level of funding and the assumption is based on the best available information and funding arrangements that were in place for previous acquisition of rolling stock.	If we do not receive the assumed level of funding, the rail programme will have to be significantly revised.	**Low**	The Council is currently in the final stages of finalising a Funding Agreement for the LNIRIM Programme between the key funding partners (Minister of Transport, Waka Kotahi, GWRC, Horizons) and the delivery partners (GWRC and KiwiRail). Once the agreement is signed in early 2024 this will be the ultimate assurance. Currently the programme is being funded by a $5m 100% Waka Kotahi contribution for undertaking the Detailed Business Case and commencing Procurement activities.

<table>
<tr><td colspan="4">Inflation impact on expenditure budget</td></tr>
<tr><td>
For the first year of the Long-Term Plan (2024/25), all financial statements have been prepared using 2024 dollars. Price level adjustments for inflation have been included in all financial statements for the following nine years of the Long-Term Plan.
Price level adjustments for the years 2025/2026 onwards have been derived from forecasts prepared for Local Government New Zealand by Business and Economic Research Limited (BERL) and deal primarily with areas of expenditure local authorities are exposed to through their business.
The capital inflation rate used by the Council is a LGCI (Local Government Cost Index) capex category.
<table>
<tr><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th><th>2029/30</th><th>2030/31</th><th>2031/32</th><th>2032/33</th><th>2033/34</th><th>2025/26</th></tr>
<tr><td>2.00%</td><td>2.20%</td><td>2.20%</td><td>2.10%</td><td>2.10%</td><td>2.00%</td><td>2.00%</td><td>1.90%</td><td>1.90%</td><td>2.00%</td></tr>
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Salary inflation rate used by Council is LCI for all salary and wage rates for local government sector.
<table>
<tr><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th><th>2029/30</th><th>2030/31</th><th>2031/32</th><th>2032/33</th><th>2033/34</th><th>2025/26</th></tr>
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</table>
The operational inflation rates used by Council is LGCI (Local Government Cost Index) opex.
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<tr><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th><th>2029/30</th><th>2030/31</th><th>2031/32</th><th>2032/33</th><th>2033/34</th><th>2025/26</th></tr>
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CPI rate increases
<table>
<tr><th>2025/26</th><th>2026/27</th><th>2027/28</th><th>2028/29</th><th>2029/30</th><th>2030/31</th><th>2031/32</th><th>2032/33</th><th>2033/34</th><th>2025/26</th></tr>
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</table>
</td>
<td>Actual inflation rates exceed budgeted inflation rates</td>
<td>Low (short term)

Medium (up to 10 years)</td>
<td>
A number of factors will affect economic performance and certainty around these cost factors is difficult to judge. BERL has had many years of experience in providing cost adjustors to local government and is the best-known resource available.
However, with volatility within the global economy and supply chains, currently the risk is considered low in the short-term, medium up to 10 years and high over 10 years.
Preparing an annual budget and resetting rates combined with triennial review of LTP mitigates the medium and long-term risks.
</td></tr>
<tr><td>Other Revenue</td><td></td><td></td><td></td></tr>
<tr><td>The other revenue is assumed to grow by inflation for the life of the long-term plan.</td><td>The other revenue does not grow as assumed in the plan and that has a negative impact on surplus or deficit.</td><td>Low</td><td>As inflation has been applied and other revenue is not the main source of revenue for Council the risk is considered negligible.</td></tr>
</table>

Government and other external sources of capital grants funding			
The Council receives funding from various sources for the development of infrastructure.	The risk is that until capital grants can be guaranteed by the third party they may not be received as budgeted or could be lower than budgeted. This would result in a shortfall in funding for planned projects and could result in a negative impact on operating result and an increase in debt.	**Medium**	If rates change, the Council will review budgets in subsequent Annual Plans

Affordable Waters reform			
As part of new government 100-day plan, the Water Service Entities Act has been repealed in February 2024. Therefore, we have prepared the Long-term plan assuming we will continue to own the infrastructure related to water asset.	Political uncertainties where the new elected government might repeal the water removal	**Low**	As the election takes place every 3 years, triennial review of LTP will mitigates the risk of uncertainties. Preparing an annual budget will allow the Council to re-assess the current situation and make any adjustments as necessary.

Insurance			
Our insurance provider has anticipated the insurance costs to increase by 10-20% annually. Therefore, we have assumed 15% increase in insurance for the first year and continuing to inflate them up to 10% in subsequent years.	The risk is that there could be further large adjustments in insurance that are not allowed for in the Long-term Plan.	**Medium**	If New Zealand is struck by another major natural disaster, there is a chance the council will not be able to get insurance again to cover potential damages or the premiums will become unaffordable.

Financial risks from climate change			
It is assumed that all critical climate risks drivers will remain in place for the duration of the LTP. The Long-Term Plan assumes that the Council will experience increasing pressure on the economy due to climate change risks in particular: – Interest costs on debt; – Insurance premiums; – Capital and operational assets costs of assets and degradation of assets The Long-Term Plan also does not propose any significant changes to our current levels of service in the short-term. However, increased investment may be required to maintain levels of service in flood protection long-term. The Plan assumes that the Council will have no liability risks from contractual and legal obligations through service level agreements with third parties.	Emerging risk drivers are higher than expected	**Medium**	The Council is seen as a leader in the environmental hazard risk management in the region. Asset Management Plans capture climate risks by adjusting their thirty-year plans with additional funding necessary to manage the risk for adaptation and transition. The Council is also regularly assessing the impact and uncertainties of climate change every two months and reviewing any references for actions and controls as required.

External borrowings			
It is assumed that Council's portfolio of debt, which has differing maturity dates from 1 to 10 years and new funding required, will be able to be raised on favourable terms. It is assumed that Council will be able to refinance existing loans on similar terms.	Loans are unable to be repaid at maturity. Council will not be able to raise new debt on favourable terms. The result would mean Council would have to borrow at higher than planned interest rates.	**Low**	Local government is a very low risk to investors, second only to central government. For this reason, it is very unlikely that Council will not be able to raise funds on favourable terms as and when required. Council has a comprehensive treasury policy and management practices, employs expert advice when required, has a debenture trust deed for raising loans and employs qualified staff. Counterparties have always shown confidence in the Council in the past and this is not likely to change. To ensure that debt levels continue to remain prudent and sustainable, the Council has set a prudential limit of net debt as depicted in the Financial Strategy. The Council ensures that sufficient cash, liquid investments and committed lines of credit are available to allow us to pay our bills for at least the next six months.

Local Government Funding Agency (LGFA) guarantee			
Majority of the shareholders of the LGFA are parties to a Deed of Guarantee, whereby the parties to the deed guarantee the obligations of the LGFA and guarantee the obligations of other participating local authorities to the LGFA, in the event of default.	In the event of a default by the LGFA, each guarantor is liable to pay a proportion of the amount owing. The proportion to be paid by each respective guarantor is set in relation to each guarantor's rating base.	**Low**	The Council believes the risk of the guarantee being called on and any financial loss arising from the guarantee is very low. The likelihood of a local authority borrower defaulting is extremely low and all the borrowings by a local authority from the LGFA are secured by a charge over rates.

Local Government Funding Agency			
The Council remains a shareholder and borrows direct from the LGFA which was set up as an institution to source lower-cost funding for Councils.	LGFA will be downgraded materially, or lower cost funding will not be achieved.	**Low**	LGFA debt is guaranteed by all member Councils and has strict credit limits which ensures good credit quality and therefore reduces the risk of any material downgrade.

Interest rates			
The Council has an actual portfolio of fixed interest rate debt that matures at various times over the next 10 years. In preparing the long term plan the Council used the implied 90-day forward rates for its floating interest rate projection. The fixed interest rate is based on the existing pay fixed rate swaps in place. A market determined credit margin of 0.60% is added to this for all years of the LTP. Taking into account the current economic state, the interest rate on the cost of borrowing for the Long-term Plan is as follows: 2024/25: 5.35%; 2025/26: 4.92%; 2026/27: 4.78%; 2027/28: 4.84%; 2028/29: 4.95%; 2029/30: 5.15%; 2030/31: 5.25%; 2031/32: 5.36%; 2032/33: 5.43%; 2033/34: 5.61% Our internal lending rates are currently sitting at 0.05% margin	The prevailing interest rates will differ significantly from those estimated.	**Low in short-term** **Medium in long-term, up to 10 years**	Increases in interest rates flow through to higher debt servicing costs and higher rates funding requirements. The Council can use fixed interest rate borrowings which locks the Council's future borrowing costs for a certain period of time to protect us from rising interest rates. The Council has mitigated interest risk using interest rate swaps and is governed by a robust Treasury Management Policy that prescribes best practice interest risk and debt concentration risk covenants. The Council has diversified portfolio of revenue sources to help it pay for interest costs, including rates, levies, fees and charges, fares and investment income. Interest rate forecasts can be restated every year through the Annual Plans

2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
5.35%	4.92%	4.78%	4.84%	4.95%	5.15%	5.25%	5.36%	5.43%	5.61%

Return on short-term financial investments			
Although the interest earned on short term cash investments will fluctuate considerably over the 10 years, it is assumed that the Council will earn at least a prudent return on investment between 4.80%-5.85% p.a.	The risk is that the Council will obtain lower returns on its cash investments.	**Low** **Medium in long-term, up to 10 years**	The Council bases its returns at prudent levels and the risk of returns going well below the estimated, prudent levels over the 10 year period is considered low.

Dividend income			
The Council invests in strategic assets, and it is assumed that the Council will continue to control and own its strategic assets.	Income from dividends may differ from what was projected due to fluctuating market prices or decline in dividends. Reduction in dividend income will affect the level of contribution able to offset the rate requirement.	**Medium**	Any increase in the rate requirement due to reduced dividend levels is unlikely to be substantial, and if the shortfall is significant the Council would review its expenditure levels. Dividend income forecasts can be restated every year through the Annual Plan

Capital projects delivery			
We assume the capital programme will be delivered as planned following a comprehensive clean sheet budgeting process.	If the capital programme is not delivered as anticipated there could be an impact to our Level of Service and the future needs of our community.	**Medium**	Capital projects are inherently exposed to various uncertainties from both the demand supply perspectives. To mitigate the risks, the Council reviews and re-forecasts capital projects deliverability, in the regular annual plan and long-term plan cycles. We are also engaging with external advisors as necessary to improve the capital delivery framework and focusing resources to support delivery.