Significant Forecasting Assumptions

Significant Forecasting Assumptions

Budget and Forecasting Assumptions and Risk Assessment

Schedule 10 of the Local Government Act 2002 requires that the Council identifies the significant forecasting assumptions and risks underlying the financial information set out in the ten year Long Term Council Community Plan (LTCCP). Where there is a high level of uncertainty the Council is required to state the reason for that level of uncertainty and provide an estimate of the potential effects on the financial assumptions. The level of uncertainty is determined by reference to both the likelihood of occurrence and the financial materiality.

The Council has made a number of significant assumptions in the preparation of the financial forecasts in this LTCCP. These assumptions are necessary as the LTCCP covers a 10 year period and to ensure that there is a consistent and justifiable basis for the preparation of the financial forecasts. The significant forecasting assumptions used in developing the financial forecasts in the LTCCP are detailed in the table below.

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
General Assumptions:			
Projected growth change factors: City growth assumptions underpin the Council's Asset Management Plans and capital expenditure budgets in the LTCCP. These assumptions are informed by forecasts based on Greater Wellington Regional Council's MERA projection modelling on population, dwellings and employment based on Statistics NZ census data.	That growth is higher than projected thereby putting pressure on Council to provide additional infrastructure and services.	Low	Low to moderate growth can be accommodated within the present level of Council infrastructure. Where growth requires additional infrastructure, Council will collect development contributions to meet a portion of the cost of new or upgraded investment. Capital costs over this amount will result in additional Council expenditure which will need to be funded through new borrowings.

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
We generally use the “medium series” population projections which are recommended by Statistics NZ. They are derived from a top-down perspective - national first then applied to individual territorial local authorities based on their make-up and historical trend. Statistics NZ make assumptions on fertility and mortality rates and migration. The migration assumptions also have low, medium and high rates based on historic trends and short-run migration levels that are based on an analysis of immigration permits, residence applications and approvals, overseas student numbers, and arrivals and departures analysed by characteristics such as citizenship, country of last/next permanent residence and age.			
	That growth is lower than projected thereby resulting in surplus capacity in existing or planned infrastructure and services.	Low	Negative growth may not necessarily result in a lower number of ratepayers as on average the number of people per household is decreasing. A consistent and significant decline in population would likely result in moderate increases in

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
			rates.
Growth in ratepayer base: The estimated growth in the City’s ratepayer base between 2008/09 and 2009/10 is 1.2%. As a result, the “real” average rates funding increase will be reduced by an equivalent amount as there are a greater number of ratepayers across which the rates funding requirement will be allocated.	The growth in the ratepayer base is higher or lower than projected.	Low	The Council has used current property information from its valuation service provider (Quotable Value) to assess the level of growth in rating units. The projected 1.2% growth is considered robust.
Levels of Service Demand for Council Services and customer expectations regarding levels of service will not significantly change and therefore there will be no significant effect on asset requirements or operating expenditure.	There are significant changes in customer expectations regarding demand for services or levels of service.	Low	The Council has well defined service levels for its planned activities. Customer Satisfaction Surveys and other engagement strategies generally support this key assumption and therefore there are currently no areas of the Council’s service that require significant modification.
Resource consents Conditions for existing resource consents held by Council will not be significantly altered. Any resource consents due for renewal during the 10 year period will be	Conditions of resource consents are altered significantly. Council is unable to renew existing resource consents upon expiry.	Low	The financial effect of any change to resource consent requirements would depend upon the extent of the change. A significant change in requirements could result in the

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
renewed accordingly.			Council needing to spend additional funds to enable compliance. Generally, the Council considers that it is fully compliant with existing Resource Consents and does not contemplate any material departure from these requirements over the next 10 years.
Development Contributions Significant assumptions in relation to development contributions are included within the Development Contributions Policy.	Projected growth does not eventuate resulting in lower than expected development contributions.	Low	Growth assumptions are considered robust as they are informed by forecasts based on Greater Wellington Regional Council's MERA projection modelling on population, dwellings and employment based on Statistics NZ census data.
Significant Financial Assumptions:			
Inflation The Council has adjusted base financial projections to reflect the estimated impact of inflation.	That actual inflation will be significantly different from the assumed inflation.	Low -Medium Years (1-3) Medium - High Years (4-10)	Inflation is affected by external economic factors, most of which are outside of the Council's control and influence. Council's costs and the income required to fund those costs will

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
			increase by the rate of inflation unless efficiency gains can be made.
Inflation Rates Applied: Inflation rates have been estimated using the BERL "Forecasts of Price level Change Adjustors to 2019." The applicable rates are (shown cumulative):			While individual indices will at times vary from what has been included in this LTCCP, the Council has relied on the Reserve Bank use of monetary controls to keep inflation within the 1.5 to 3% range.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Roading	**1.000**	**1.030**	**1.059**	**1.084**	**1.110**	**1.135**	**1.161**	**1.188**	**1.217**	**1.244**
Property	**1.000**	**1.030**	**1.058**	**1.088**	**1.118**	**1.150**	**1.186**	**1.216**	**1.244**	**1.272**
Water	**1.000**	**1.030**	**1.059**	**1.088**	**1.123**	**1.156**	**1.196**	**1.233**	**1.273**	**1.315**
Energy	**1.000**	**1.023**	**1.050**	**1.082**	**1.113**	**1.150**	**1.187**	**1.227**	**1.269**	**1.313**
Staff	**1.000**	**1.027**	**1.055**	**1.081**	**1.108**	**1.136**	**1.165**	**1.202**	**1.235**	**1.273**
Other Expense	**1.000**	**1.033**	**1.056**	**1.082**	**1.105**	**1.128**	**1.154**	**1.181**	**1.209**	**1.240**
Other Income	**1.000**	**1.030**	**1.061**	**1.093**	**1.126**	**1.159**	**1.194**	**1.230**	**1.267**	**1.305**

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
Significant Financial Assumptions:			
Application of the Inflation Rates: The inflation rates above have been applied across all items within the financial statements with the exception of:	That the revenue streams identified are influenced by changes in prices or the rate of inflation.	Low	The assumption is considered reasonable in these cases due to the specific circumstances noted.
Revenue from investment properties – not inflated as most ground leases are subject to fixed rentals across the period. **Petrol tax** – forecast to remain constant. Revenue from petrol tax is driven by tax rates and volumes – both of which are expected to remain constant over the 10 year period. **Interest revenue and expenditure** – Interest rates do not increase annually in line with rates of inflation. Interest rates have been forecast to remain constant. Refer section below. **Dividends –** Although rates of inflation will affect the revenues and expenditures of those entities distributing dividends to the Council it is not anticipated that the level of	That the revenue streams identified fluctuate annually as a result of external factors outside the control of the Council.	Low - Mod	Although the revenue streams may vary annually due to factors outside the control of the Council (eg, petrol consumption may vary and therefore affect the revenue received from Petrol Tax) it is not considered that annual variances will have a material effect on the financial forecasts in the LTCCP.

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
dividend will be influenced by rates of inflation in the future.			
Expected return on investments: Council has forecast the following returns for significant investments: **Wellington International Airport Limited shareholding –** it is assumed that the Council will retain its existing investment in WIAL of 34% and that a regular flow of revenue will be received by way of dividend. **Wellington Cable Car Limited –** it is assumed that the Council will retain its existing investment at the same level. Dividends are assumed to remain constant across the 10 year period.	That Council will not achieve the forecast level of dividends That Council will not achieve the forecast level of dividends	Mod Mod	The forecast annual dividend from Wellington International Airport Limited is $5 million. Wellington International Airport Limited does not have a dividend policy in place. The level of dividend is dependent on the financial performance of the company. The Council has utilised historical results and future projections of the company to determine the forecast return. The forecast dividend from Wellington Cable Car Limited is $250,000 per annum The level of dividend is dependent on the financial performance of the company. The Council has utilised historical results and future projections of the company

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
			to determine the forecast return.
Wellington Regional Stadium Trust loan – in accordance with the terms of the loan, no interest has been forecast across the 10 year period. The loan is due to be repaid once the Trust has repaid all of its other liabilities and borrowings. The Trust may return part of its annual operating surplus to the Council to repay all or part of the outstanding loan.	The loan will not be repaid	Low	As the Trust is currently servicing its other loan obligations to commercial lenders, the Council considers that it is unlikely that the Trust will make an annual repayment of the outstanding loan. Once these commercial loans have been repaid the Council expects that the Trust will be in a position to repay the loan advanced by the Council. There is currently no information / reason to suggest that the Trust will not be in a position to repay the Council’s loan.
Expected interest rates on borrowings Interest is calculated at 6.75% per annum	That prevailing interest rates will differ significantly from those estimated.	Mod	Interest rates are largely driven by factors external to the NZ economy. Council is predicting a significant increase in borrowings over the 10 year period. Based on Council projected borrowings levels, interest costs will increase/decrease by between $3m and $3.3m per annum for every

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
			1% movement in interest rates.
NZTA subsidies NZTA requirements and specifications for the performance of subsidised work and subsidy rates will not alter to the extent that they impact significantly on operating costs.	Changes in the subsidy rate and variation in criteria for inclusion in the subsidised works programme.	Low	NZTA funding priorities may change as a result of the Land Transport Management Act 2003. Variations in subsidy rates will increase/decrease Council's operational revenue by \$0.09m to \$0.12m for every 1% change in subsidy.
Vested assets No vesting of assets is forecast across the 10 year period.	That Council will have assets vested thereby increasing the depreciation expense in subsequent years.	High	The level of vested assets fluctuates considerably from year to year. Historical levels have not been material. The recognition of vested assets in the income statement is non-cash in nature and will have no effect on rates. The financial effect of the uncertainty is expected to be low.
Sources of funds for the future replacement of significant assets Sources of funds for operating and capital expenditure are as per the Revenue and Earnings Policy (refer page xx)	That sources of funds are not achieved	Low	User charges have been set at previously achieve levels. Depreciation is funded through rates. The Council is able to access borrowings at levels forecast within the LTCCP.

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
Useful lives of significant assets The useful lives of significant assets is shown in the Statement of Accounting Policies (refer page xx). It is assumed that there will be no reassessment of useful lives throughout the 10 year period.	That assets wear out earlier or later than estimated.	Low - Asset lives are based upon estimates made by engineers and registered valuers.	The financial effect of the uncertainty is likely to be immaterial. Depreciation and interest costs would increase if capital expenditure was required earlier than anticipated. However, these impacts could be mitigated as capital projects could be reprioritised in the event of early expiration of assets.
It is assumed that assets will be replaced at the end of their useful life.	That Council activities change, resulting in decisions not to replace existing assets.	Low	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.
Planned asset acquisitions (as per the capital expenditure programme) shall be depreciated on the same basis as existing assets.	That more detailed analysis of planned capital projects may alter the useful life and therefore the depreciation expense.	Low	Asset capacity and condition is monitored, with replacement works being planned accordingly. Depreciation is calculated in accordance with accounting and asset management requirements.

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
Revaluation of property, plant and equipment These forecasts include a three yearly estimate to reflect the change in asset valuations for property, plant and equipment in accordance with the Council's accounting policies (refer page xx). The following assumptions have been applied to projected asset revaluations: • Revaluation movements shall equate the inflation rates applied for all depreciable property, plant and equipment (refer section "Inflation") • The depreciation impact of inflation shall be in the year following revaluation. • The value of non-depreciable assets (eg land) is forecast to remain constant.	That actual revaluation movements will be significantly different from those forecast	Mod	The majority of Council's depreciable property, plant and equipment assets is valued on a depreciated replacement cost basis. Therefore, using the projected inflation rate as a proxy for revaluation movements is appropriate and consistent with the treatment of price changes generally within the LTCCP. For land assets valued at market value (based on sales evidence), values have been assumed to remain constant. This reflects the wide disparity in views on the sustainability of current residential market prices. This assumption has no impact on depreciation as these assets are not depreciated.
Revaluation of other assets It is assumed that the value of all other assets (eg investment properties) accounted for at fair/market value will remain constant across the 10 year plan.	That actual revaluation movements will be significantly different from those forecast	Mod	For assets valued at market value (based on sales evidence), values have been assumed to remain constant. This reflects the wide disparity in views on the

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
			sustainability of current residential market prices. This assumption has no impact on depreciation as these assets are not depreciated.
Renewal of External Funding It is assumed that Council will be able to renew existing borrowings on equivalent terms	That new borrowings cannot be accessed to fund future capital requirements	Low	The Council minimises its liquidity risk by maintaining a mix of current and non-current borrowings in accordance with its Investment and Liability Management Policy. In accordance with the Liability Management Policy the Council must maintain its borrowing facilities at a level that exceeds 110% of peak borrowing levels over the next 12 months.