

SECTION 4: CONSEQUENTIAL CHANGES TO FINANCIAL AND FUNDING STATEMENTS

INTRODUCTION

Amendments to Financial Information – Financial and Funding Statements, Opex and Capex Activity Listings and Significant Forecasting Assumptions

The Council's LTCCP details the financial forecasts for the delivery of the Council's activities, services and capital investment. The LTCCP includes the prospective financial information and statements for the 10 year period to 30 June 2016. The financial information and forecasts were prepared on the basis of best estimate assumptions as to future events which the Council reasonably expected to take place. The prospective financial statements were authorised for issue on 28 June 2006 and the assumptions and estimates contained in these statements were appropriate as at that date. The prospective financial statements contain a cautionary note to the effect that the financial information is prospective and therefore actual results are likely to vary from the information presented, and that the variations may be material.

In developing the 2007/08 Annual Plan the Council has updated its budget assumptions and forecasts for the financial year ending 30 June 2008. In accordance with the Act the Council is required to prepare financial information for the 2007/08 financial period only. The Council is not required to prepare and / or publish updated forecast financial information for the subsequent periods covered by the current LTCCP. Notwithstanding this, as a matter of good financial management, the Council updates its long term financial forecasts to take into account budget changes covered by the 2007/08 Annual Plan (and the consequential future implications of these budget changes), updates to forecast budget assumptions (including changes to the forecast timing of projects, forecast inflation rates etc.) and for amendments to asset management plans and Council policies.

As part of the amendment, the Council has replaced the financial statements detailed in the LTCCP with those Statements attached. These have been updated to take into account the financial implications and consequences of the following:

- The Crown investment in the Council's social housing portfolio
- Changes to the Revenue and Financing Policy
- Changes to project and programme budgets
- Changes to the forecast budget assumptions that underpin the LTCCP including, revenue and expenditure assumptions and forecasts, scheduled timing of projects and proposed amendments to asset management plans.

Appendix 2

SIGNIFICANT FORECASTING ASSUMPTIONS

The financial information has been prepared on the basis of best estimate assumptions as to future events which the Council expects to take place. The Council has considered factors that may lead to a material difference between information in the prospective financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are included within the principal assumptions underlying the forecasts noted within the LTCCP (page 363 to 371) with the following three changes highlighted):

| Forecasting Assumptions | Risk | Level of Uncertainty | Reasons and Financial Effect of Uncertainty |
|---|---|----------------------|---|
| <p>Expected interest rates on borrowings Interest is calculated as follows: Existing borrowings 7.30% New borrowings 7.30%</p> | <p>That prevailing interest rates will differ significantly from those estimated.</p> | <p>Mod</p> | <p>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 \$2.1m - \$4.2m per annum for every 1% movement in interest rates.</p> |
| <p>Growth in ratepayer base: The estimated growth in the City's ratepayer base between 2006/07 and 2007/08 is 1.50%. 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.</p> | <p>The growth in the ratepayer base is higher or lower than projected.</p> | <p>Low</p> | <p>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 1.50% growth is considered robust.</p> |

Appendix 2

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| <p>Expected Return on Investments</p> <p>Remove section on Wellington International Airport Limited subordinated debt</p> | | | |
| <p>Inflation Rates Applied: Inflation rates have been estimated using the BERL price level change forecasts to calculate an average inflation rate for each year of the DAP.</p> <p>2008/09 3.1% 2009/10 3.1% 2010/11 3.0% 2011/12 2.9% 2012/13 2.8% 2013/14 2.7% 2014/15 2.7% 2015/16 2.6%</p> | <p>That actual inflation will be significantly different from the assumed inflation.</p> | <p>Low Medium Years (1-3) Medium - High Years (4-9)</p> | <p>Inflation is affected by external economic factors, most of which are outside of the Council's control and influence.</p> <p>Council's costs and the income required to fund those costs will increase by the rate of inflation unless efficiency gains can be made.</p> <p>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</p> |