Our 10-Year Plan

Wellington City Council, Draft Significant Forecasting Assumptions

Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

Draft Significant Forecasting Assumptions

The following tables detail and summarise the significant forecasting assumptions (assumptions) used in developing these long-term plan (LTP) financial estimates, including assumptions concerning sources of funds for the future replacement of significant assets. Also included are the risks underlying each assumption, as well as:

- an assessment of the level of uncertainty
- An estimate of the potential effects of that uncertainty on the financial estimates.

These assumptions cover a ten year period to ensure there is a consistent and justifiable basis for the preparation of financial forecasts and strategies for the LTP.

Summary

Assumption	Level of uncertainty	Risk level (Likelihood that risk will occur)	Consequence (or effects of the uncertainty or risk)
General assumptions			
1. Strategic direction	Low	Low	Minor
2. Key challenges	Moderate	High	Moderate
3. LTP priorities	Low	Low	Minor
4. Economic growth	Moderate	Moderate	Moderate
5. Population growth	Moderate	Low	Moderate
6. Growth in ratepayer base	Moderate	Moderate	Moderate
7. Levels of service	Moderate	Moderate	Moderate
8. Cost savings and efficiencies	Moderate	Moderate	Moderate
9. Cost of major projects	High	Moderate	Moderate
10. Resource consents	Low	Moderate	Low
11. Civil defence and emergency	Moderate	Low	High
12. Urban development	Moderate	Low	Low
13. Housing – Strategic Housing Investment Programme (SHIP)	Moderate	Moderate	Moderate
14. Water treatment (Havelock North Drinking Water Inquiry)	Low	Low	Low (reassessed once standards detail is known)

Assumption	Level of uncertainty	Risk level (Likelihood that risk will occur)	Consequence (or effects of the uncertainty or risk)
Financial assumptions			
15. Inflation	Low	Low	Moderate
16. Expected interest rates on borrowings	Low	Low	Moderate
Expected return on investments			
17. Wellington International Airport Limited shareholding	Low	Low	Low
18. Wellington Cable Car Limited	Low	Low	Low
19. Wellington Regional Stadium Trust loan	Low	Low	Low
20. Targeted accommodation rate	Moderate	Moderate	Moderate
21. Convention Centre	Moderate	Low	Low
22. New Zealand Transport Agency (NZTA) funding	Low	Low	Low
23. Vested assets	High	Low	Moderate
24. Sale of assets	Moderate	Moderate	Moderate
25. Sources of funds for the future replacement of significant assets	Low	Low	Low
26. Useful lives of significant assets	Low	Low	Low
27. Depreciation and revaluation of property, plant and equipment	Moderate	Low	Low
28. Revaluation of investment properties	Moderate	Low	Low
29. Insurance	Moderate	Moderate	Moderate
30. LGFA Guarantee	Low	Low	Low
31. Renewal of external funding	Low	Moderate	Moderate
32. Weathertight homes	Low	Moderate	Low
33. General rates differential	Low	Moderate	Low

Assumption	Level of uncertainty *(High, moderate, low)*	Risk	Risk level *(How likely risk will occur - high, moderate, low)*	Effects of the uncertainty/risk	Mitigation
	L M H		L M H		
General assumptions					
1. Strategic direction A key assumption guiding the development of this LTP is that the strategic direction set out in the strategy Wellington Towards 2040: Smart Capital will remain and continue to be supported by Wellington residents. The strategy focuses on ensuring Wellington thrives and prospers and is resilient against threats, both natural and economic. It has four long-term city outcomes: • A people city • An eco city • A connected city • A dynamic central city These outcomes will continue to be the long-term goals for our city as we prepare the LTP and consequently influence the Council's funding and delivery of its services and infrastructure development. This strategy and its goals have also been integrated with the Council's 3-year work programme (Triennium Plan), and consulted on with residents as part of the Annual Plan 2016/17.	L	That the strategy Wellington Towards 2040: Smart Capital does not enable Wellington to sustain progress towards its goals.	L	An erosion of resident support for the strategic goals and supporting strategies and underlying strategic investment programmes.	The Council will continue to: • review performance data and local and global trends to ensure the foundations underpinning the strategy remain relevant for Wellington • Provide ongoing reporting and engagement (e.g. annual plans) with residents to communicate our progress towards the long-term outcomes.
2. Key challenges The key challenges in our operating environment that are the focus of this LTP: • *Managing the demands of growth* – More people want to live here. Statistics NZ estimate that Wellington will have a	M	The key challenges will increase beyond the Council's ability to fund and or deliver programmes that increase the city's ability to cope with the challenges.	M	The quality of life in Wellington will not be able to meet residents' expectations.	Implementing programmes that are well-researched, integrated and effectively manged continues to be a key driver of the mitigating of the undesirable impacts of these challenges. The strategy

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population of between 250,000 to 280,000 by the year 2043. A growing population puts pressure on transport, infrastructure, and housing – particularly in Wellington, which has a constrained urban environment. • *Making the city more resilient* – In November 2016, we experienced a significant earthquake that tested our city. It responded well, but there is more work to do. The climate is also changing and we need to find ways of living with more frequent and severe and frequent extreme weather events (a 1 in 50 year event is now likely to occur 1 in 20 years.). So we need to factor in extreme weather events as well as rising sea levels. In this LTP, one of the key challenges will be to improve core infrastructure and invest in the city's resilience. • *Developing areas where we have a competitive advantage* – We've invested extensively in the arts over many decades and our city has an enviable reputation as a centre of culture. That didn't happen by accident: we, along with central government and others, have been supporting and investing in the sector for years. We will need to ensure investment levels are sufficient to retain our status as the capital of									Wellington Towards 2040: Smart Capital includes a focus on ensuring that the Council continues to develop its capacity to mitigate in advance.

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culture. • *Making sure we operate from a position of strength* – We want a city that offers a high quality of life, good services and facilities, and that looks after its people and the environment. All of this requires a healthy and strong economy. Our economy generally performs very well, but in terms of GDP growth still lags behind the New Zealand average. Our challenge is to maintain the current growth and support the diversification of the economy so that it is strong and sustainable.									
3. LTP priorities To meet these challenges we have established five priorities for this LTP. They provide focus for the activities in the LTP, guide the funding of our programmes and support progress towards our long-term outcomes. • *Housing* – We propose to continue investing in social housing and increase our involvement in a range of housing options including affordable housing and facilitating accommodation of our growing population. • *Transport* – We propose investing in transport initiatives to maintain easy access in, out and around our city, promoting alternatives to the private car, and reducing congestion. • *Resilience and environment* – We propose investing in core infrastructure and making our city more resilient against future shocks.	L			That the LTP priorities do not adequately address the current challenges.	L			If the priorities do not adequately address the identified challenges then: • risks inherent in the challenges are likely to increase and erode Wellington's liveability • Progress towards the long-term outcomes and *Smart City* vision is likely to slow.	Before approving business cases for the funding of new projects each business case is to identify where and how they: • align with the priority area • align with the long-term city outcomes • mitigate issues/risks relating to the challenges and/or priority areas.

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In preparing for future risks we assess the likelihood and its estimated impact on the community. We assume the likelihood of tsunami occurring once every 2,500 years and there is a 10% chance of a major earthquake on the Wellington fault in the next 100 years. Our planning for future events will continue to be informed by regional event forecasts by organisations such as GEONET (see https://www.geonet.org.nz/earthquake/forecast/kaikoura). • *Sustainable growth* – We propose investing in economic catalyst projects to continue to stimulate economic growth and diversification, and undertaking comprehensive spatial planning for how and where the city will grow to accommodate a growing population. • *Arts and culture* – We propose investing in arts and culture in a context of increasing global competition to maintain our position as a vibrant, edgy capital.					
4. Economic growth The development of this LTP reflects a local economy that is growing with economic expansion remaining broad-based across a range of economic indicators. Strong population growth from overseas migration continues to drive activity, growth and consumption. The population is currently growing at around 2.0% per annum, which is double the 10-year average. (See item five below for more details on population growth.)	M	Economic growth is lower than forecast due to: • external market factors • strategies not developed to diversify the economy to improve productivity and make the city more resilient • insufficient investment in infrastructure/services constraining city development	M	A strong economy supports a growing ratepayer base, which in turn provides the means for the Council to invest in the city. The economic outlook also affects local businesses, the level of employment and the rate of urban development, which is closely aligned to the level of growth in the ratepayer base.	Ensure economic catalyst projects proceed and support the Wellington Regional Economic Development Agency (WREDA) in growing Wellington's economy.

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Tourism continues to rebound after the November 2016 earthquake, with guest nights in the city recovering due mainly to strong international tourism growth. The ***labour market*** is tightening, with unemployment continuing to trend downwards and demand for highly skilled labour continuing to increase. The majority of jobs are being created across the professional services, finance, health, construction and hospitality sectors. The tightening in the labour market has yet to be reflected in wage growth. We project that positive GDP growth will continue – within the range of the last 3 years at 1-3%.		• strategies not developed to attract and retain highly skilled workers in the information services sector • a reduction in the recent above average growth in overseas migration.		A significant decline in economic growth could impact on the level of unemployment, wage growth and business performance, which may require the Council to reduce its investment programme in some areas.	
5. Population growth City growth assumptions underpin the Council's Asset Management Plans, capital expenditure budgets, and level of services in the LTP. Population and demographic assumptions are provided by Informed Decisions (.id) for Wellington City modelling population growth, demographic changes and housing demand at a neighbourhood and city level. Forecast inputs are based on Statistics NZ data and detailed information from the Council about current and planned residential activity in the city. They were last updated in November 2016. See our website (wellington.govt.nz) for the population, household and dwelling forecasts for the city and each neighbourhood, together with a list of assumptions that have been	M	Population forecast growth assumptions are conservative, which may lead to an underestimation of population growth. A risk exists that total population growth continues to track higher than average.	L	If population growth is higher than forecast, added pressure will be put on Council infrastructure and service provision leading to possible failure to meet expected levels of service or constraining growth.	Moderate growth can be accommodated within the present level of Council infrastructure. Where higher levels of growth create demand for new infrastructure, the Council will collect development contributions to meet a portion of the costs of new or upgraded investment.

<table>
<tr><th>Assumption</th><th>Level of uncertainty (High, moderate, low)
L M H</th><th>Risk</th><th>Risk level (How likely risk will occur - high, moderate, low)
L M H</th><th>Effects of the uncertainty/risk</th><th>Mitigation</th></tr>
<tr><td>
incorporated into the forecast.
The population forecasts for this LTP are:
<table>
<tr><th>Year</th><th>Wellington City (forecast.id Medium Projection)</th><th>Wellington City (SNZ High Projection)</th><th>Central Wellington (forecast.id Medium Projection)</th></tr>
<tr><td>2018</td><td>211,811</td><td>217,770</td><td>16,426</td></tr>
<tr><td>2019</td><td>213,846</td><td>221,270</td><td>17,107</td></tr>
<tr><td>2020</td><td>215,892</td><td>224,430</td><td>17,877</td></tr>
<tr><td>2021</td><td>218,084</td><td>227,360</td><td>18,680</td></tr>
<tr><td>2022</td><td>220,137</td><td>229,900</td><td>19,467</td></tr>
<tr><td>2023</td><td>222,341</td><td>232,400</td><td>20,336</td></tr>
<tr><td>2024</td><td>224,050</td><td>234,900</td><td>21,042</td></tr>
<tr><td>2025</td><td>225,689</td><td>237,610</td><td>21,571</td></tr>
<tr><td>2026</td><td>227,049</td><td>240,100</td><td>22,040</td></tr>
<tr><td>2027</td><td>228,108</td><td>242,740</td><td>22,411</td></tr>
<tr><td>2028</td><td>229,236</td><td>245,340</td><td>22,757</td></tr>
<tr><td>Annual average</td><td>0.8%</td><td>1.2%</td><td>3.3%</td></tr>
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The city’s population is expected to grow to between 250,000 to 280,000 people by 2043.
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6. Growth in ratepayer base
The Council plans to invest in a range of initiatives that will provide an economic catalyst for the city, which we forecast will provide ratepayer growth of:
<table>
<tr><th>Year</th><th>Capital Value growth</th><th>Rate Units</th></tr>
<tr><td>2018/19</td><td>0.8%</td><td>78,354</td></tr>
<tr><td>2019/20</td><td>1.0%</td><td>79,138</td></tr>
<tr><td>2020/21</td><td>1.2%</td><td>80,088</td></tr>
<tr><td>2021/22</td><td>1.0%</td><td>80,889</td></tr>
</table>
</td><td>M</td><td>The growth in ratepayer base is higher or lower than projected.</td><td>M</td><td>
The Council has used current property information from its valuation service provider (Quotable Value Ltd), forward looking consenting, further expected negative revaluations as a result of the November 2016 earthquake and historic trends to assess the growth in the ratepayer base.
If growth is higher than forecasted, average rates
</td><td>We will measure and report on growth in the rating base and review the projections and underlying strategy on a regular basis.</td></tr>
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2022/23 1.0% 81,698 2023/24 0.8% 82,352 2024/25 0.8% 83,011 2024/26 0.8% 83,675 2024/27 0.8% 84,344 2024/28 0.8% 85,019								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. If growth is lower than forecasted, the average rates increase for the ratepayer will be higher. The annual impact of a 1% of variance in growth in the ratepayer base is equivalent to approximately $3.5m of rates.	
7. Levels of service Overall, 70% of residents consider that the Council provides value for money services. However, overall pressures on maintaining levels of service delivery (and value for money services to residents) are expected to increase. These pressures are expect to flow from: • accommodating an increasing population – particularly in the central city (see also item 5) • an increasing volume of people accessing Council services (demand) • maintaining infrastructure upgrade and renewal cycles for significant assets • Increasing regulatory demands – particularly for the built environment, e.g. building code changes. For this LTP we assume that: • the current demand for Council services and		M		That there are significant changes in the impact of pressures on the demand for services or levels of service beyond those planned in this LTP.		M		If customers begin to expect a higher level of service we either risk decreasing residents' satisfaction or an increase in ongoing costs to maintain a higher level of service.	• The Council has well defined service levels for its planned activities, which have been reviewed as part of the LTP process. • Customer satisfaction surveys and other engagement strategies generally support the key assumptions made within the LTP and therefore there are currently no known additional areas of the Council's service that require significant modification.

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customer expectations regarding business as usual levels of service will not significantly decrease during the planning period • beyond what is specifically planned for and identified in this LTP, there will be no significant additional impact from above pressures on asset requirements or operating expenditure.					
8. Cost savings and efficiencies The Council has reviewed its services and explored a range of efficiencies in the preparation of this LTP. Many cost savings from the Long-term Plan 2015–25 have also been carried through, e.g. increased asset utilisation, shared service models and organisational alignment. For this LTP we have made additional assumptions around the Council's forecast position vacancies for the 10-year duration of the plan.	M	That forecast of position vacancies is too high	M	Increased costs	The Council will monitor budget settings on a quarterly basis and can adjust budget requirements through the annual plan process.
9. Cost of major projects This LTP identifies a number of projects that are likely to have substantial financial implications during the 10-year period of the plan. They are at different stages of development and the specific costs and timing are uncertain but will become clearer as we work through the planning phases. The financial strategy will detail the capacity of the Council to invest in these projects over the 10-year period of the LTP. Major projects to be progressed within the 10 years of the LTP are as follows. • *Economic catalyst projects* – This series of	H	The construction market is tight reflecting a strong economy, significant investment in transport infrastructure in the region, a housing shortage, and the recovery phase to the last earthquake still underway. There is a risk that that if our work is not appropriately phased the budget allocated will be insufficient to fund the projects identified. There is	M	We expect to be able to manage increases in costs of these major projects within existing budgets – through rephasing of the project itself or of other projects to free up the required funding. This would lead to a delay to some projects For specific service level impacts refer to alternative options contained in the proposals in *Priority Areas* section of our 2018-28 Long-term Plan Consultation Document. Any changes to	Continue to monitor the construction market and rephase work as necessary through future annual plans.

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projects includes the Movie Museum and Convention Centre, a new indoor arena, and an extension to the airport runway. The Council is working with partners and other stakeholders to fund and deliver these projects. Funding is already budgeted, however there is some uncertainty around the timing and total costs to complete these projects. Budget rephasing may be required to continue to accommodate these projects within budgets. There is also a requirement for central government to contribute funding to the Movie Museum and Convention Centre. • *Let's Get Wellington Moving* – This programme of work has a number of options out for consultation. A provisional figure is included in the draft LTP budget. This funding provision may have to be scaled up or down depending on decisions made. • *Resilience projects* – A number of large infrastructure projects are programmed in the LTP to make our underground infrastructure more resilient. This includes $32 million for construction of the new Prince of Wales/Omāroro reservoir. *Earthquake strengthening* – A number of Council buildings will be strengthened during the 10-year period of this LTP. This includes the Town Hall ($88.7 million), the Bond Store (Wellington Museum), the St James Theatre and Opera House.				also a risk that partnership funding (e.g. regional contribution towards the indoor arena) does not eventuate or is less than assumed.				budget or increased costs will be communicated through annual reports and plans.	
10. Resource consents Conditions for existing resource consents held by the Council will not be significantly altered.	L			Conditions of resource consents are altered		M		The financial effect of any change to resource consent requirements would depend	Generally, the Council considers that it is fully compliant with existing

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Any resource consents due for renewal during the 10-year period of this LTP will be renewed accordingly.		significantly. The Council is unable to renew existing resource consents upon expiry.		upon the extent of the change. A significant change in requirements could result in the Council needing to spend additional funds to enable compliance.	resource consents and does not contemplate any material departure from these requirements over the next 10 years.
11. Civil defence and emergency (a) The LTP is prepared on the basis that the city is continually improving its emergency preparedness, and whilst the impact of a major natural disaster cannot be accurately predicted (and therefore the response required), increased community preparedness and regional consistency will continue to be cornerstones of our approach. (b) In line with the rest of New Zealand, we will continue to follow the '4Rs' to underpin our emergency preparedness and resilience strategy. The '4Rs' refer to: • reduction of risk • readiness for an event • response when it occurs • Recovery, post-event. For details on our Resilience Strategy see https://wellington.govt.nz/about-wellington/wellington-resilience-strategy. (c) The focus areas for continuously improving our disaster preparedness within our plan are and will continue to be: • improving our emergency response	L	That a significant event occurs (e.g. a major earthquake) and: • insufficient risk reduction measures are in place to prevent large numbers of casualties and/or • inadequate response mechanisms are not suitably prepared to effectively manage an emergency to prevent large numbers of casualties.	M	The city is unable to recover sufficiently or quickly enough in order to prevent long-term adverse effects on population or local economy.	Although the probability of a major earthquake or other natural disaster within the lifespan of this LTP is low, we take emergency preparedness very seriously. We believe that preparedness activities are never finished and therefore aim for continuous improvement. The Council is prepared to respond to large events, as some response plans are in place and staff members are regularly trained. However, work is needed to ensure that learnings from any activation are captured and contribute to the ongoing improvement of the city's preparedness. A key focus for this LTP will be improving the city's resilience. There will be a number of earthquake strengthening and resilience projects that are expected to support the mitigation of the adverse impact of a significant event and managing our event

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mechanisms • earthquake-prone buildings • water and wastewater • transportation • welfare • Community preparedness. (d) In any major event where our capacity is exceeded, we assume that regional, and national entities and international assistance can be called upon when required. (e) The scope of the financial impact of significant events is difficult to quantify pre-event. However, when planning our long-term budget programme and assessing the possible financial impact of future events we continue to consider the direct and indirect costs of previous events. In addition, our approach to continuously improving resilience, emergency preparedness etc (as in (a) and (b) of above) is expected to support improved city resilience and help mitigate the financial impact of a significant event. A large event will, however, have a significant impact on the expenditure programme in this LTP.									insurance costs.
12. Urban development A staged review of our District Plan is assumed for this LTP period to guide how and where the city will grow over time. The review will incorporate our response to the Government's National Policy Statement		M		There is lack of community consensus for how and where the city will grow over time, that this delays District Plan changes, while population growth continues strongly.	L			The city lacks a comprehensive plan for how and where it will accommodate future growth. This could create uncertainty for developers, delay infrastructure investment and	A strong communication and engagement programme to articulate the issue and the options. This work has already started with the Our City Tomorrow programme.

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on Urban Development Capacity as well as setting a clear direction for growth in the city and ensuring capacity and feasibility for development. Making space for growth while also maintaining and protecting our natural environment will be crucial to a thriving Wellington. To complete both stages of work and implement District Plan changes we will be making provision in the budget for operational funding over the 10-year period of this LTP.								impact on housing supply.	
13. Housing - Strategic Housing Investment Programme The Council is proposing to take a more active role to avoid an Auckland style housing crisis in Wellington. The programme involves: • identifying new land for development and existing Council housing sites for redevelopment and intensification • undertaking master planning work, geotechnical work, and site clearance for redevelopment • leveraging surplus land / sites to attract investment from other housing providers, developers and/or central government to deliver affordable housing. We have assumed that: • The development of social and affordable housing is likely to involve partnering with developers and other housing providers. • Construction of the Council's social housing units will be funded through the		M		The main area of uncertainty relates to the timing and quantity of any revenue from disposal or lease arrangements. This can only be determined as business cases are prepared for specific sites are looked at in detail and discussions with development partners occur.		M		Consequently no specific funding has been included in our 10 year budgets allocated in the forecasts at this time.	It is assumed any divestment revenue is put towards supporting the delivery of the social housing upgrade programme. Specific sites and proposals will be subject to further consultation through annual plan processes.

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existing Social Housing Upgrade Programme (and any disposal / lease of surplus land); and • The construction of affordable housing units will be funded and delivered by development partners.									
14. Water treatment (Havelock North Drinking Water Inquiry) Increased treatment standards (particularly related to the treatment of water from previously 'secure' sources and chlorination) are going to gain strong support and are likely to be implemented as a result of the Havelock North Drinking Water Inquiry. The OAG's auditors, as part of their audit, will be specifically asking councils what the impact is and how it has been addressed in the draft LTP. The SOLGM Business Performance Working Party has recommended is likely that increased treatment standards will result from the enquiry. In particular standards related to the treatment of water from previously considered 'secure' sources of drinking water. For this LTP we are assuming that increasing Drinking Water Standards are "more likely".	L			Any increase in the standards relating to the treatment of water from previously 'secure' sources and chlorination that requires a material change to our current approach. All the water that Wellington Water supply to Wellington, Porirua, Lower Hutt and Upper Hutt is chlorinated.	L			Undetermined until standards known	
Financial assumptions									
15. Inflation The Council has adjusted base financial projections to reflect the estimated impact of inflation.	L			That actual inflation will be significantly different from the assumed inflation.	L			Inflation is affected by external economic factors, most of which are outside of the Council's control and influence. The Council's costs and the income required to fund those	Annual review through annual plan process.

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								costs will 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 2028. We also assume that the Reserve Bank will use monetary controls to keep CPI within the 1.5% to 3% range.	L			Inflation exceeds forecasts. The BERL personnel forecast is for New Zealand as a whole, and not specific to Wellington. The city currently enjoys low unemployment and with central government departments also a significant employer in the city, the labour market is tight.	L			The Council's costs increase faster than planned.	

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Planning and regulation	1.96%	2.12%	2.08%	2.13%	2.17%	2.30%	2.34%	2.37%	2.40%	2.50%
Roading	2.06%	2.21%	2.16%	2.30%	2.34%	2.46%	2.49%	2.60%	2.69%	2.78%
Transport	2.06%	2.02%	2.07%	2.22%	2.26%	2.30%	2.33%	2.53%	2.55%	2.65%
Community Activities	1.67%	2.03%	2.09%	2.14%	2.18%	2.22%	2.35%	2.38%	2.41%	2.60%
Water and Environmental Management	2.36%	2.50%	2.25%	2.38%	2.42%	2.53%	2.56%	2.66%	2.75%	2.83%
Personnel	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%

The inflation rates above have been applied across all items included in the Long-term Plan budgets with the exception of:

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Personnel Costs – An additional provision of 1% increase in personnel costs has been included for each of the first five years to address the gap between Council average remuneration and the local government market median.				That the market median moves at a higher or lower rate than forecast.				Further adjustments to personnel cost budgets and/or staffing levels may be required in future plans.	
Revenue from investment properties – not inflated as most ground leases are subject to fixed rentals across the period.				The relevant revenue streams identified are influenced by changes in prices or the rate of					

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	L M H		L M H		
		inflation.			
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 of this LTP.		That the revenue streams identified fluctuate annually as a result of external factors outside the control of the Council.		Although the revenue streams may vary annually due to factors outside the control of the Council (e.g. 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 LTP.	
Interest revenue – forecast to remain constant. Interest rates do not increase annually in line with rates of inflation. Refer section below.		N/A			
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 dividend will be influenced by rates of inflation in the future.		N/A			
16. Expected interest rates on borrowings Interest is calculated using the following interest rates: **Year / Interest rate %** 2018/19 4.30% per annum 2019/20 4.45% per annum 2020/21 4.65% per annum 2021/22 4.80% per annum 2022/23 5.10% per annum 2023/24 5.25% per annum 2024/25 5.40% per annum 2025/26 5.40% per annum 2026/27 5.50% per annum 2027/28 5.60% per annum	L	That prevailing interest rates will differ significantly from those estimated.	L	Based on the minimum hedging profile, a 0.1% movement in interest rates will increase/decrease annual interest expense by between $200,000 and $1,000,000 per annum across the 10-year period of this LTP.	Interest rates are largely driven by factors external to the New Zealand economy. The Council manages its exposure to adverse changes in interest rates through the use of interest rate swaps. At any time Council policy is to have a minimum level of interest rate hedging equivalent to 50% of core borrowings.

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	L	M	H		L	M	H		
Expected return on investments – the Council has forecast the following returns for significant investments:									
17. 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.	L			That the Council receives less than the forecast level of dividend.	L			The level of dividend is dependent on the financial performance of the company. If the actual returns are significantly less than forecast, the Council will need to look for alternative funding through rates or borrowings.	Regular monitoring of the financial performance of WIAL.
18. Wellington Cable Car Limited It is assumed that the Council will retain its existing investment at current levels. No dividends are assumed across the 10-year period of this LTP.	L			That the financial performance of the company declines.	L			The level of dividend is dependent on the financial performance of the company. If the actual returns are significantly less than forecast, the Council will need to look for alternative funding through rates or borrowings.	Regular monitoring of the financial performance of the company.
19. Wellington Regional Stadium Trust loan In accordance with the terms of the loan, no interest has been forecast across the 10-year period of this LTP. 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. We assume no interest or loan repayment for this LTP.	L			No interest or loan repayments are forecast in this LTP.	L			None, as the assumption in this LTP is for no interest or loan repayments.	Regular monitoring of the financial performance of the Trust.
20. Targeted accommodation rate This plan includes a broad range of investments that will support the visitor economy.		M		The targeted rate is not approved or approved at a lower rate than planned.		M		In the event that the targeted rate does not eventuate or is set in place at a lower level than assumed, then there	

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In the coming year we will explore options around introducing a visitor based targeted rate from year 3 of this plan. We are including the rate in the out-years because we want to go through detailed analysis and talk to a wide range of stakeholders to make sure the new rate is fair and equitable.								would be a consequential increased rates impost.	
21. Convention Centre We have assumed: • $25m government contribution to the convention centre.		M		That operating surpluses returned to the Council are lower than forecast.	L			In the event that operating surpluses do not eventuate or operating losses are incurred then there would be a consequential increased rates impost.	Operating forecasts assume a mid-case scenario based on a business case with robust and sound assumptions. A range of industry experts (including PricewaterhouseCoopers, BERL Economics, Howarth HTL Ltd, and Covec Ltd) were engaged in preparing and reviewing the business case. The business case has been prepared in full knowledge of the planned developments in other regions. Regular monitoring of the financial performance of the Convention Centre will enable the management of any operating risks.
22. New Zealand Transport Agency (NZTA) funding The Council has made assumptions on the level of subsidies it expects to receive from central government through the NZTA over the period of the LTP. The NZTA's funding assistance system was reviewed during 2012–14 resulting in a revised normal funding assistance rate (FAR). Since 2015 we have been on a transition	L			NZTA makes further changes to the subsidy rate, the funding cap or the criteria for inclusion in the subsidised works programme.	L			Variations in the subsidy rates of approx. 1% would not impact the Council's funding income stream due to current eligible expenditure being in excess of the current funding cap.	

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toward the normal FAR. We have now reached the normal FAR so is expected to remain at 51% for the period of the LTP.									
23. Vested assets No vesting of assets is forecast across the 10-year period of this LTP.			H	That Council will have assets vested thereby increasing the depreciation expense in subsequent years.	L			The level of vested assets fluctuates considerably from year to year and is unpredictable. 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.	
24. Sale of assets We have assumed asset sales of $35.2m will be realised to repay borrowings across the 10-year period of this LTP.		M		That the sale of assets do not occur at forecasted levels.		M		If the level of asset sales is less than forecasted, either our level of debt will increase by the relevant amount or the Council may consider revising its level of asset investment. The interest cost of servicing this debt will be lower or higher depending on the level of asset sales.	
25. Sources of funds for the future replacement of significant assets Sources of funds for operating and capital expenditure are obtained in accordance with the Revenue and Financing Policy.	L			That sources of funds are not achieved.	L			User charges have been set at previously achieved levels. Depreciation is funded through rates. The Council is able to access borrowings at levels forecast within the LTP.	
26. Useful lives of significant assets The estimated useful lives of significant assets	L			That assets wear out earlier or later than estimated.	L			Depreciation and interest costs would increase if capital	

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will be as shown in the Statement of Accounting Policies.								expenditure was required earlier than anticipated. The financial effect of the uncertainty is likely to be immaterial.	
The majority of the significant assets will continue to be revalued every 3 years.	L			That Council activities change, resulting in decisions not to replace existing assets.	L				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.	L			That Council replaces assets before the end of useful life.	L				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.
Planned asset acquisitions (as per the capital expenditure programme) shall be depreciated on the same basis as existing assets.	L			That more detailed analysis of planned capital projects may alter the useful life and therefore the depreciation expense.	L				Asset capacity and condition is monitored, with replacement works being planned accordingly. Depreciation is calculated in accordance with accounting and asset management requirements.
27. Depreciation and revaluation of property, plant and equipment (including water and transport assets) These forecasts include a 3-yearly estimate to reflect the change in asset valuations for property, plant and equipment in accordance with the Council's accounting policies. The following assumptions have been made for this LTP:	L			That actual revaluation movements are significantly different from those forecast.	L				The majority of the Council's depreciable property, plant and equipment assets are 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

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• The Council will continue its policy of fully funding depreciation • Revaluation movements shall equate the inflation rates applied for all depreciable property, plant and equipment (refer to the "Inflation" section) • The depreciation impact of inflation shall be in the year following revaluation • The value of non-depreciable assets (e.g. land) is forecast to remain constant									changes generally within the LTP. 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.
28. Revaluation of investment properties It is assumed that the value of investment properties accounted for at fair/market value will and will change in by the Local Government Cost Index (LGCI) across the 10 year plan.		M		That actual revaluation movements will be significantly different from those forecast	L				For assets valued at market value (based on sales evidence), values have been assumed to remain constant. This assumption has no impact on depreciation as these assets are not depreciated.
29. Insurance The Council will maintain asset insurance sufficient to indemnify itself against the expected damage caused in a one in one thousand year earthquake event. In November 2016 the Civic Administration building (CAB) suffered significant damage during the 14 November 2016 earthquake. The building was immediately closed and has remained closed since the event. This building is subject to an insurance claim, which covers both the repair costs and the relocation costs.		M		The CAB insurance claim is still in progress. The Council's preliminary assessment of earthquake repairs is in the region of $33.0 million. The indemnity value of CAB under Council's insurance value is $48.7 million. The insurance policy has a deductible of $5.0 million. While an estimate of the repair and relocation costs has been obtained by the Council and provided to the insurer there are still subject to discussion and agreement with the insurer.		M		This means that the amount that the Council will receive cannot be reliably measured.	The Council has maintains a sensitivity analysis of the estimated building impairment while Insurer discussions proceed.

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30. LGFA Guarantee Each of the shareholders of the LGFA is a party to a Deed of Guarantee, whereby the parties to the deed guarantee the obligations of the LGFA and the guarantee obligations of other participating local authorities to the LGFA, in the event of default.	L			In the event of a default by the LGFA, each guarantor would be 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 relative rates income.	L			The Council believes the risk of the guarantee being called on and any financial loss arising from the guarantee is low. The likelihood of a local authority borrower defaulting is extremely low and all of the borrowings by a local authority from the LGFA are secured by a rates charge.	
31. Renewal of external funding It is assumed that the Council will be able to renew existing borrowings on equivalent terms.	L			That new borrowings cannot be accessed to fund future capital requirements.		M		Future capital programmes may be delayed and the Council improvement programmes/infrastructure assets may not receive the required investment.	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.
32. Weathertight homes The Council will continue to spread the cost incurred by settling weathertight homes claims by funding claims from borrowings and spreading the rates funded repayment across a number of years. This LTP assumes that the Council's weathertight homes liability will be fully settled and the associated borrowing repaid over the 10–year period of this LTP.	L			That the level of the claims and settlements is higher than provided for within the LTP.		M		The weathertight homes liability is an actuarial calculation based on the best information currently available. The liability provided for within the Council's financial statements is $50m, a 1% change in this figure would equate to $0.5m.	
33. General rates differential It is assumed that the general rates differential will remain at 2.8:1 Commercial: Base/Residential over the 10-year period of this LTP.	L			That the Council makes the decision to change the general rates differential from forecast.		M		Should the Council decide to change the general rate differential, the maximum it could be expected to move would be from 2.8:1 to 1:1 Commercial: Base/Residential. This could potentially transfer the rates impost from	

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								Commercial ratepayers back to Base/Residential ratepayers of approximately $35m-$57m per annum.	

Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke