Significant Forecasting Assumptions

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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 Plan (LTP). 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 LTP. These assumptions are necessary as the LTP 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 LTP are detailed in the table below.

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
General Assumptions:			
Strategic Direction The strategic direction set out in the *Wellington 2040: Smart Capital* strategy will influence the way the Council delivers services and infrastructure to Wellington's residents. Achieving the strategic directions will ensure Wellington thrives and prospers and is resilient against threats, both natural and economic. The strategy will be supported by Wellington's residents. Four strategic goals: • People City	That the strategic directions will not lead to Wellington prospering and thriving.	Low	The *Wellington 2040: Smart Capital* strategy is based on a significant body of research predicting six major global trends which will impact on the city between now and 2040. Thorough and comprehensive engagement with Wellington's residents show the vision and goals in the strategy are widely supported. The Strategy builds on strengths and mitigates against threats. The strategy's overarching vision and

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Forecasting Assumptions	**Risk**	**Level of Uncertainty**	**Reasons and Financial Effect of Uncertainty**
• Eco City • Connected City • Dynamic Central City			goals guide the development of the Long Term Plan, specific strategies to achieve outcomes, how the Council's activities can best align to a smart green future, and the setting of meaningful long-term targets to measure progress.
Projected growth change factors: • **Residents** • **Households** • **Household size** • **Household make-up** • **Age profile** City growth assumptions underpin the Council's Asset Management Plans and capital expenditure budgets in the LTP. This year our assumptions are informed by the ID Forecast for Wellington City modelling land development, housing markets and the role of	That growth is higher than forecast 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 costs 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**
suburbs. It is based on Statistics NZ data from the 2001 and 2006 censuses, converting usual resident data to estimated resident population for each neighbourhood. It is also mindful of larger economic and migration trends which are likely to effect the region. It provides a realistic projection based on current policy settings and how they are playing out. See our website www.wellington.govt.nz for the population forecast for the city as a whole and for each neighbourhood together with a list of assumptions that have been incorporated in the forecast.	That growth is lower than forecast, 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 increase in rates.
Growth in ratepayer base: The estimated growth in the City's ratepayer base is: 2012/13 0.2% 2013/14 0.5% 2014/15 0.5% 2015/16 0.5% 2016/17 0.5% 2017/18 0.5% 2018/19 0.5% 2019/20 0.5% 2020/21 0.5% 2021/22 0.5% 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 - Med	The Council has used currently property information from its valuation service provider (Quotable Value) to assess the level of growth in rating units, together with longer term projections from the ID Forecast modelling used in the LTP. The projected growth for 2012/13 is considered robust, with a higher level of estimation for out-years.

Forecasting Assumptions	**Risk**	**Level of Uncertainty**	**Reasons and Financial Effect of Uncertainty**
Forecast cost savings and efficiencies The council is forecasting that efficiency gains and cost savings of equivalent to 5% of average funded operating expenditure over the ten years will be made. This ongoing review will focus on: i. A review of the options, impacts and potential risks of reducing the renewals budget ii. The future need for assets and their ongoing strategic alignment. iii. The future capital programme, service levels, alternative service models, holdings and potential income-generating opportunities. iv. Organisational alignment.	That council does not achieve the forecast level of savings. Note that in making any decisions the Council will: • consider the need to appropriately maintain assets so that an unsustainable future financial liability does not result • comply with legislation • ensure the potential adverse impacts on the health and safety of staff and the public are adequately mitigated • outline levels of service impacts and any associated monitoring framework to ensure that changes are sustainable and do not cause unacceptable impacts or disruption to the services that the assets support.	Low – medium	The general rates requirement would increase or decrease by the difference between the actual and projected general rates reductions from savings. This would require the council to adjust rates, debt, fees and charges, and/or expenditure requirements where savings differ from those forecasted. The council has achieved additional savings targets in each of the past three years of between $4m and $8m. This provides confidence that further cost savings can be made, although the actual timing and impact will subject to a number of factors.
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 which have been reviewed as part of the LTP process. Customer satisfaction surveys and other engagement strategies generally support this key assumption and therefore there are currently no areas of the Council's

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Forecasting Assumptions	**Risk**	**Level of Uncertainty**	**Reasons and Financial Effect of Uncertainty**
			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 renewed accordingly.	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 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.	If growth is higher or lower than forecast, the level of development contributions collected could be insufficient to cover the costs of additional infrastructure required to meet the needs of Wellington's future population.	Low	The growth assumptions within the Development Contributions Policy are considered robust as they are based on the ID Forecast modelling on population, assumptions used across the LTP. The policy is adopted by Council after a robust process including the Special Consultative Procedure and external audit.
Civil Defence and Emergency Preparedness The LTP is prepared on the basis that the city is continually improving its emergency preparedness, and whilst the impact of a major	That a significant event occurs (eg. a major earthquake) and: ▪ insufficient risk reduction	Medium	The September 2010 and February 2011 Canterbury earthquakes showed the magnitude of effects of a moderate to severe emergency event

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Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
natural disaster cannot be accurately predicted (and therefore the response required), increased community preparedness and regional consistency are cornerstones of our approach. In line with the rest of NZ, we follow the "4Rs": ▪ Reduction of risk ▪ Readiness for an event ▪ Response when it occurs; and ▪ Recovery, post-event. The focus areas within our plan are: ▪ Earthquake prone buildings ▪ Water ▪ Wastewater ▪ Transportation ▪ Electricity ▪ Gas ▪ Telecoms ▪ Welfare ▪ Community preparedness Most hazards we prepare for have an expected probability. For example, maximum size tsunami once every 2,500 years; major quake on the Wellington fault, 10% chance in the next 100 years.	measures are in place to prevent large numbers of casualties, or ▪ the city is unable to recover sufficiently or quickly enough in order to prevent long-term adverse effects on population or local economy.		across urban and rural areas. The range and breadth of effects (short and long term) have influenced all areas of life and social, economic, environmental and cultural wellbeing. Emergency assistance was required not only from local organisations, but a national and international response was required. Although the probability of a major earthquake or other natural disaster within the lifespan of the LTP is low, we do take Emergency Preparedness very seriously with the aim to be as prepared as possible. We believe that preparedness activities are never finished and therefore aim for continuous improvement. Although we do consider ourselves capable of dealing with a large event now, we will never know how adequate our plans are until the day they are tested for real. Regardless of preparedness levels, in a major event it will always be likely that regional, national and international assistance will be required. Similarly, the financial impact of such an event is unknown until such an event occurs. However, it is likely to have a significant impact to the current planned expenditure within

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
			the LTP.
Government Policy That the Government policy framework will continue to provide a stable working and statutory framework.	That Government policy framework shifts, resulting in new or amended legislation either requiring significant response and cost to adminster by Council; or results in a change to the services delivered by the Council.	High	The current Government has indicated it will pursue a course of local government reform, but details have not be released. Council will be required to respond to any changes, assess the impact on service delivery and financial budgets.
Regional Governance Review The Wellington local authorities will continue to work with the public toward a common view of regional governance. This will strengthen the opportunities for authorities to propose and drive any reform agreed with or by Central Government.	That councils in the region fail to lead a public discussion on the issue of governance reform leading to inappropriate and/or rushed change is imposed by central government	Medium	The Regional Governance Review was initiated by the Wellington Regional Mayoral Forum in 2010. The external environment has changed since that review was initiated – including central government announcing an intention to examine reform of the sector. The Council will need to ensure its public is informed on any subsequent proposals or debate.
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 increase by the rate of inflation

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Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
			unless efficiency gains can be made.
Inflation Rates Applied: Inflation rates have been estimated using the BERL "Forecasts of Price level Change Adjustors to 2022." The applicable rates are (shown cumulative):			While individual indices will at times vary from what has been included in this LTP, the Council has relied on the Reserve Bank use of monetary controls to keep inflation within the 1.5 to 3% range.

INDEX	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Roading	1.000	1.030	1.067	1.101	1.133	1.170	1.211	1.255	1.299	1.344
Property	1.000	1.029	1.059	1.091	1.125	1.156	1.189	1.225	1.265	1.306
Water	1.000	1.039	1.075	1.115	1.158	1.198	1.241	1.288	1.341	1.396
Energy	1.000	1.048	1.098	1.153	1.212	1.268	1.325	1.392	1.466	1.544
Staff	1.000	1.024	1.048	1.075	1.104	1.129	1.156	1.185	1.218	1.251
Other Expense	1.000	1.032	1.065	1.101	1.139	1.177	1.217	1.258	1.302	1.348
Other Income	1.000	1.030	1.061	1.093	1.126	1.159	1.194	1.230	1.267	1.305

Significant Financial Assumptions:

Application of the Inflation Rates: The inflation rates above have been applied across all items within the financial statements	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.

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
with the exception of: **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. **Grants -** Our grant schemes and grants to other organisations do not increase with inflation and remain constant until Council make a decision to change the level of the grants. Therefore our assumption is there will be no change to the value of our grants over the 10 year period. **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.	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 LTP.
Expected return on investments: Council has forecast the following returns for significant investments:			

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Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
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.	That Council will not achieve the forecast level of dividends	Mod	The forecast annual dividend from Wellington International Airport Limited is $9 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.
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	Mod	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 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

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
			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 using the following interest rates: 2012/13 6.00% per annum 2013/14 6.00% per annum 2014/15 6.20% per annum 2015/16 6.50% per annum 2016/17 6.50% per annum 2017/18 6.75% per annum 2018/19 6.75% per annum 2019/20 6.75% per annum 2020/21 6.75% per annum 2021/22 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 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. Based on the minimum hedging profile, a 1% movement in interest rates will increase/decrease annual interest expense by between \$1.5 and \$2.0m per annum.
NZTA funding 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.	NZTA make changes to the subsidy rate, the funding cap or the criteria for inclusion in the subsidised works programme.	Low	NZTA funding priorities may change as a result of the Land Transport Management Act 2003 or the National Land Transport Programme 2012/13 – 2015/16 yet to be finalised. 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.
Vested assets			

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Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
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 Financing Policy (refer page xx)	That sources of funds are not achieved	Low	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.
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. • Reliability of data - we're	Low	Council has a comprehensive asset management planning process. Where a decision is made not to replace an asset, this will be factored

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Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
	continuing to improve our asset information – including condition information - to give greater certainty to our forecasts		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.
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 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. This assumption has no impact on depreciation as these assets are not depreciated.
Revaluation of other assets			

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
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 sustainability of current residential market prices. This assumption has no impact on depreciation as these assets are not depreciated.
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.	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 guarantors relative rates income.	Low	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.
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.

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
Weathertight Homes Council's weathertight homes liability is assumed to be paid within the 10 years of the LTP.	That the level of the claims and settlements is higher than provided for within the LTP.	Low	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 \$51m, a 1% change in this figure would equate to \$0.5m.

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