

# Significant forecasting assumptions and risks

Schedule 10 (section 11) of the Local Government Act 2002 contains provisions relating to 'significant forecasting assumptions'. The Act requires that Council identifies the significant forecasting assumptions and risks underlying the financial estimates. Where there is a high level of uncertainty, 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 Council has made a number of assumptions in preparing this document. These assumptions are necessary as the planning term for the LTCCP is 10 years and the assumptions ensure that all estimates and forecasts are made on the same basis.

Forecasting assumptions	Risk	Likelihood of occurrence	Financial materiality	Reasons and financial effect of uncertainty
<p>Growth forecasts: The population of the District is estimated to double by 2050. For the period of this plan, growth is expressed in 'planning area units' or 'equivalent households'. It is anticipated that just under 7,000 equivalent households' will occur over the 2009 – 2019 period.</p>	<p>That growth is higher than projected, putting increased pressure on Council to provide additional infrastructure and services.</p>	<p>Low</p>	<p>Low</p>	<p>On average, growth is estimated at just under 700 equivalent households per year for the 2009 to 2019 period of this plan.</p> <p>Where growth requires extra infrastructure, Council will require development contributions for this work.</p>
	<p>That growth is lower than projected, putting pressure on Council to maintain existing infrastructure and services.</p>	<p>Medium</p>	<p>Low</p>	<p>Council plans for growth over a ten year period and reviews the plans on a three-yearly review basis in line with the LTCCP. As a result the impact of growth being higher or lower than expected is likely to be minimal as these will be picked up during the three-yearly review.</p> <p>Should Council be in a situation where growth is significantly higher or lower than projections, it will be forced to review earlier than the three-yearly review due to the impacts on the development contributions being levied. However this will only be the case if the total growth yield for the ten year period changes significantly. Any change that doesn't result in a change in the overall yield is unlikely to have any material impact on the financial projections.</p> <p>The growth forecasts also drive the timing of the capital works programme. Any significant changes to these will result in changes to the timing of the projects which is updated on an annual basis at Annual Planning time.</p>

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Resource consents - conditions of resource consents held by Council will not be altered significantly.	Conditions of resource consent are altered significantly and without sufficient warning.	Low	Low	The likelihood of this occurring is minimal as a result of Council's programme of developing integrated catchment management plans with respect to stormwater.
	Work is not performed in accordance with the conditions of the consent.	Low	Low	Council's water and wastewater operations are currently undertaken by United Water Ltd.  Council does not operate any open landfills. Council has a number of closed landfills for which consents have been granted for a term longer than the period of this plan. Council's other landfills still undergoing the consenting process will not have a material impact on the financial projections.
Inflation - Council has used the BERL forecasts of price level changes to calculate the impact of inflation on specific types of expenses in the plan.	That actual inflation will be significantly different from the assumed inflation.	Low Years (1-3)	Low Years (1-3)	Inflation is affected by external economic factors.
		Medium Years (4-10)	Medium Years (4-10)	Council's costs and the income required to fund those costs will increase by the rate of inflation unless efficiency gains can be made.  While individual cost indices will at times vary from what has been included in this plan, the Council has relied on the Reserve Bank use of monetary controls to keep inflation within the 1.5 to 3% range.

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<p>Interest – Interest on term debt is calculated at 7.0 to 7.5% per annum. Interest on investments is calculated at 5.0 to 5.75%.</p>	<p>That interest rates will change from those used in the calculations.</p>	<p>Medium</p>	<p>Medium</p>	<p>Interest rates on borrowed funds are largely influenced by factors external to the New Zealand economy. Council will be a 'net borrower' in the period of this LTCCP. Therefore any changes to interest rates on borrowing will have an impact.</p> <p>Council is projecting an increase in debt to fund its capital works programme with levels projected from \$30 million to \$100 million over the period of this plan.</p> <p>Based on projected debt levels, a 1% increase/decrease in interest rates will mean a movement of \$10,000 per year for every \$1 million of debt.</p>
<p>New Zealand Transport Agency (NZTA) requirements and specifications for the performance of subsidised work will not alter to the extent that they impact adversely on operating costs.</p> <p>The NZTA subsidy Council has used in the LTCCP is 44% for all years of the plan for the base programme and a range of 44% to 60% for the capital programmes.</p>	<p>Changes in subsidy rate and variation in criteria for inclusion in subsidised works programme.</p>	<p>Low</p>	<p>Medium</p>	<p>NZTA funding priorities may change as a result of the Land Transport Management Act 2003. Variations in subsidy rates are possible as Government priorities change.</p> <p>A 1% decrease in subsidy in the operating programme will increase Council's cost by up to \$50,000 per annum.</p> <p>A 1% decrease in subsidy in the capital programme will increase Council's borrowing and will further result in increased loan repayment and interest costs.</p>

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Asset revaluations and impacts on depreciation – these projections include a three yearly estimate to reflect the change in asset valuations. This estimate is based on current information.	The actual revaluation may be higher or lower than the estimates.	High	Low	Variation in values expected to be low unless valuation methodology changes.  Revaluations affect the carrying value of fixed and infrastructure assets and the depreciation charge in the year subsequent to the revaluation. The financial effect of the uncertainty is unable to be quantified.
Funding sources – are as per the revenue and financing policy.	That some user charges may not be achievable.	Low	Low	Levels of charges have been set at previously achieved levels and modified by future projections based on a set of assumptions. The financial impact is unlikely to be material as some user charges under budget will be likely to be offset by some user charges over budget.
Depreciation on planned asset acquisitions – The following average depreciation rates have been used for planned asset acquisition: Buildings 1.5% Roads 3.1% Water 0% Wastewater 0% Stormwater 1.3% Fittings 10% Computers 20% Plant vehicles 20%	That more detailed analysis of planned capital works once complete may alter the depreciation expense.	Low	Low	Council has an asset management planning and upgrade programme in place. Asset capacity and condition is monitored, with replacement works being planned in accordance with standard asset management and professional practices. Depreciation is calculated in accordance with normal accounting and asset management practices.

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<p>Asset life – Useful life of assets is as recorded in asset management plans or based upon professional advice.</p> <p>Please refer Statement of Accounting Policies, Depreciation Policy.</p>	<p>That assets wear out earlier or later than estimated.</p>	<p>Low</p>	<p>Low</p>	<p>Asset life is based upon estimates of engineers and valuers.</p> <p>Asset replacements - Capital projects could be brought forward in event of early expiration of assets affecting interest costs. (Depreciation expense would also increase). The negative impacts would be at least partially offset by other assets lasting longer than estimated.</p> <p>Council's capital programme is reviewed on an annual basis and any major financial impacts will be taken into account at that point.</p>

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<p>Effects of Climate Change</p> <p>It is assumed that the climate change reports provided by the Intergovernmental Panel on Climate Change (IPCC) are reliable and provide a reasonable indication of what Council needs to consider in its planning processes.</p> <p>Based on the IPCC reports it is assumed that the sea level will rise by 0.5m over the next 100 years</p>	<p>That the period of time that the climate change scenarios are projected to come into effect are much greater or less than what was provided for in this Plan.</p>	<p>Medium / High</p>	<p>Medium / High</p>	<p>Effects of climate change over 100 years will be more pronounced in terms of more frequent and greater magnitude adverse impacts from extreme weather events; and the effects of sea level rise will increase the rate of coast line cutback with adverse impacts on public and private property, and council infrastructure such as the roading and stormwater networks.</p> <p>The IPCC is unequivocal that warming of the earth's climate system is occurring. However, there is still debate about the rate of change with international scientific research presenting many different scenarios. In May 2008, the Ministry for the Environment released a guidance document for Local Government, based on IPCC and the National Institute of Water and Atmospheric Research (NIWA). This document will be used, as was its predecessor, in Council planning. If the IPCC forecasts prove to be inaccurate, an overestimation may result in unnecessary works for the Council, however an underestimation could impact on the Council through emergency project works. Either scenario would affect ratepayers as infrastructure and hazard planning cost money.</p>

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<p>Emissions Trading Scheme (ETS)                      Before the change of Government, the ETS was formally adopted. The new Government has indicated that there will be further delays to this policy. As a result, Council expects that there will be rising costs through the ETS.</p>	<p>Emissions Trading Scheme (ETS)                      Before the change of Government, the ETS was formally adopted. The new Government has indicated that there will be further delays to this policy. As a result, Council expects that there will be rising costs through the ETS.</p>	<p>Medium / High</p>	<p>Low / Medium</p>	<p>The amendments to the ETS are as yet unknown. Without more detail it is impossible to forecast what effect they will have on Council business.</p>

## Business and Economic Research Limited (BERL) Forecast Inflation Adjustors (March 2009): % per annum change

Year Ending	Road	Property	Water	Energy	Staff	Other
2010	Base	Base	Base	Base	Base	Base
2011	2.6	2.8	2.3	2.6	2.4	3.4
2012	2.8	3.3	3.2	2.4	2.4	2.4
2013	2.4	2.6	3.0	2.8	2.7	2.4
2014	2.4	2.5	3.1	2.9	2.6	2.3
2015	2.4	3.0	3.3	3.3	2.6	2.4
2016	2.4	3.1	3.4	3.3	2.6	2.4
2017	2.5	2.5	3.3	3.4	3.1	2.4
2018	2.4	2.4	3.4	3.4	3.2	2.5
2019	2.2	2.3	3.5	3.5	3.1	2.5

## Restructuring Auckland Governance

Since the adoption of the draft LTCCP, the Local Government (Tamaki Makaurau Reorganisation) Act 2009 has been enacted and will result in the disestablishment of the Papakura District Council from 1 November 2010. The new legislation provides for the amalgamation of the eight councils in the Auckland Region into one unitary authority - the Auckland Council. This final plan is therefore prepared in this transition environment.

## Government Reform

The new National led government has indicated a number of reforms to current legislation that it intends to pursue. Each of these reforms could have an impact on this draft plan. Changes have already been signalled to the Resource Management Act of which the impact is currently uncertain. Further changes to other legislation are also indicated.

This Plan does not try to anticipate what changes will occur, any impact will be properly analysed and amendments to this plan will be made at the appropriate time.

## Balanced Budget Requirement

Council, having regard to the matters set out in section 100 (2) (a) - (d) of the Local Government Act 2002, considers that it is financially prudent to set operating revenues at significantly higher levels than operating expenses throughout the 10-year plan to ensure that sufficient revenue is generated to repay loans in accordance with the Liability Management Policy and to provide funding for the capital programme.

For the first three years of the LTCCP, Council has resolved to apply some of the funding for depreciation to loan servicing costs as a transition mechanism to smooth out the impact of the major changes that occurred in the levels of depreciation for the Roding and Stormwater assets. This transition measure is utilised to acknowledge the equity issues resulting from the change.