

Significant assumptions

Non-financial

The Long-term Plan 2018–38 and its supporting documents are based on forecasting assumptions of change in the city. In making these assumptions, we bring a degree of uncertainty into our planning. This means that some of our forecasting may be unreliable. This section presents the key assumptions with the level of risk and the possible effect of the uncertainty.

Population and economy

All councils in the Wellington region use i.d. Community Profile. This data is based on Statistics NZ medium projections but are modified to take into account local and regional factors not recognised by Statistics NZ. These are factors like new development expected to be completed within the short and medium term. Also the growth impact expected from Transmission Gully Motorway is taken into account.

Assumptions

- The Porirua City population is projected to increase from 56,100 in 2017 to 65,700 in 2043. This represents an increase of 0.76 per cent each year.
- Household growth is anticipated to be a little higher, growing from 18,300 in 2018 to 23,000 in 2043, a growth rate of 1.01 per cent each year.

- Since the population is increasing at a slightly slower rate than households, household density (the number of people living in each household) is projected to fall from 3.07 in 2018 to 2.82 in 2043.
- The age profile (the proportion of the total population that are in each age group) will remain reasonably unchanged in the short, medium and long term. This is contrary to the regional and national trend of a rising proportion of people in the over 65 age group. For example by 2048, the number of people aged over 65 is expected to be 21 per cent across the Wellington region, and as high as 31 per cent on the Kāpiti Coast. By contrast, in Porirua City, the number of people over 65 is expected to increase to only 17 per cent of the total population. Our younger population will continue to feature as a prominent part of our community.
- These changes will put pressure on infrastructure and land use, and have some impact on community and recreational services.
- Economic projections suggest that the Wellington region will maintain its importance for the national economy. The region's economy is expected to remain focused on service provision, primarily from the Wellington Central Business District, with primary and manufacturing production representing less than 10 per cent of the region's production. Employment numbers are expected to increase by 3 - 4,000 each year or 1.1 per cent.

- Although growth in tertiary service industries is expected to remain unchanged, the construction of Transmission Gully Motorway and a thorough review of the District Plan will enable the city to maximise growth opportunity by providing land and capacity to meet some of the regional growth, particularly in commercial and industrial capacity that will be difficult to meet elsewhere in the region.
- Housing unaffordability, household overcrowding (the highest in the country), low incomes, low education achievement

rates and criminal offending are badly affecting Porirua East.

Key challenges

- Transmission Gully Motorway will impact on population and commercial growth adjacent to it.
- More people will mean a greater demand on our services across the board.
- Uncertainty about the impact of global economic trends and global politics on the city.

Key risks	Risk	Uncertainty	
	New developments might happen at a speed or in a location we haven't expected. This might mean a potential immediate short-fall in infrastructure capacity, or the availability of land for development.	Low	
	There is a risk that the medium and long range population forecast assumptions are wrong due to poor assumption-making, eg Transmission Gully Motorway may act as a city bypass and contribute to net population and job losses.	Low	
	The city may also be subject to economic developments that will lead to a different pace of job growth and therefore population growth than currently projected.	Low	
Implications	1-3 years	4-10 years	11+ years
	<ul style="list-style-type: none"> • The Aotea, Whitby and Kenepuru areas will have the most growth in the city. • Pressure will continue to grow on community housing providers, including central government to build more social and affordable housing in Porirua City. 	<ul style="list-style-type: none"> • Revisions to Porirua City .id forecasts show population and households growing at a faster rate in the next 10 years, compared with 2013 projections. • The District Plan will be reviewed commencing in 2027/28, and there may be pressure on areas not zoned for development at that stage to be brought on line for new residential and business development. • Without change in the underlying drivers of household needs in Porirua East, the poor social and economic performance markers will continue to worsen. 	<ul style="list-style-type: none"> • The Northern Growth Area will become more important as a new development area. • Without significant change in the underlying drivers of household needs in Porirua East, the social and economic situation will move from bad to chronic over the next two decades.

Community engagement

The rise of social media platforms gives us more power to consult and engage with our diverse community. An increased awareness of our processes and systems means there may be expectation of greater access to and better information from us.

Assumptions

- The rise of more publicly accessible information could lead to changing expectations of when and how people engage with the Council.
- Our city is culturally and ethnically diverse, with many languages spoken, and will continue to be like that in the future.

- Ngāti Toa will become a more confident, better resourced and capable partner, and our relationship with them and their input to our strategic priorities will be more valuable.

Key challenges

- There will be an increased need for us to engage meaningfully with our community. This will affect the way we create physical documentation and the way we report findings. Better information may be consumed much faster.
- Individuals who might otherwise have remained voiceless will now connect and voice their concerns. This will increase the need for us to engage broadly and meaningfully. There is an increase expectation for co-creation of information and citizen input into Council business.
- We have a diverse population and need to grow our expertise in culturally appropriate engagement methods.
- Develop ways to build stronger connections and relationships with people who don't currently like or understand our organisation's perspectives.

Service provision

The rate at which our services are used is measured regularly. Comparing our historic trends to our future population and household projections we can forecast the level of demand on our services.

Assumptions

- There will be a continued growth of demand on all of our services.
- The type of services we provide won't change much, but there will be pressure for better quality community focused services over time.
- Our core infrastructure will still need to be provided but there will be an expectation of (and possibly government regulation demanding) better environmental protection and mitigation of the negative environmental effects of our core services like water, wastewater and stormwater.

- The highway status of SH1 and SH58 may be revoked into the Council's ownership. No assumption has been made in this Long-term Plan regarding the annual cost of ownership as negotiations with NZTA are ongoing.

Key challenges

- The population trends will impact on city services Porirua City provides like transport and water supply, as well as how and where people live and work.
- These trends will also create further demand on our community infrastructure, such as parks, libraries and community centres.
- Some of the higher regulatory standards we may be required to meet may become harder to afford.
- Technology may challenge the way we provide some of our services.

Key risks	Risk	Uncertainty
	People may lose confidence in our service provision if we are perceived as unresponsive.	Low
	People may lack confidence in our ability to manage the city.	Low/Medium
	People may have unrealistic expectations about how much information they will receive.	Low
Implications	<ul style="list-style-type: none"> • An increased need to manage stakeholder relationships. • Need to design for digital first and use our digital tools so they are useful for people, and designed for the customer. • We may also have to work harder to provide key messages against a background of 'fake' news. 	

Key risks	Risk	Uncertainty	
	Significant changes in customer expectation of quality and/or quantity that we can't meet may create high levels of dissatisfaction.	Low	
	Significant changes in regulatory requirements, in particular the Greater Wellington Regional Council Proposed Natural Resources Plan may make it harder/more expensive to meet legal standards or conditions.	Low/Medium	
	Sudden demographic changes may adversely use all spare capacity if there is unexpected high growth, or create an excess capacity if there is a sudden decline in growth.	Low	
Implications	1-3 years	4-10 years	11+ years
	<ul style="list-style-type: none"> We expect to have completed the link roads that connect to Transmission Gully Motorway. These links are expected to change the flow of traffic both within and through the city. Increased development in the Aotea and Whitby areas has created a need for more storage for day-to-day supply and resilience. Intensification in existing areas will add pressure on areas already unable to cope with rainfall events of increasing intensity and frequency. Transport in the Kenepuru area will increase and add pressure to a part of the transport network that is already under strain at peak times. 	<ul style="list-style-type: none"> Further load on the wastewater system may increase the occurrences of overflows from the system. The wastewater programme includes renewal of all parts of the system. Continued growth will place even more pressure on flood prone areas. A programme of work to mitigate this, particularly in the CBD, is proposed. There will be more pressure from the community to expand our community services. SH1 and SH58 potential revocation will increase the direct costs of maintaining these significant roading assets. 	<ul style="list-style-type: none"> The population is predicted to be increasing to 66,936 by 2048, placing further pressure on core services such as wastewater disposal and transport, and also on community services like libraries and recreation space. By the early 2040s the Wastewater Treatment Plant will be reaching the limits of its capacity. Upgrades in the first decade of this Long-term Plan and near the end of the third decade will be necessary too. Development in the northern growth area will create pressure for more parks and sportsfield space and better community centre provision.

Asset data and information

How much physical assets we own, how much it costs to maintain and operate them, and when they need to be replaced is fundamental to a large amount of our total financial forecast. This section presents our level of confidence in the state of our asset data.

Assumptions

The table below is the data confidence grading system.

Grade	Description
A – highly reliable	Data based on sound records, procedures, investigations and analysis that is properly documented and recognised as the best method of assessment.
B – reliable	Data based on sound records, procedures, investigations, and analysis that is properly documented but has minor shortcomings, for example the data is old, some documentation is missing, and reliance is placed on unconfirmed reports or some extrapolation.
C – uncertain	Data based on sound records, procedures, investigations or analysis that is incomplete or unsupported, or extrapolation from a limited sample for which grade A or B data is available.
D – very uncertain	Data is based on unconfirmed verbal reports and/or cursory inspection and analysis.

Asset data grade

	Water	Wastewater	Stormwater	Roading	Parks	Solid Waste	Property
Quantity and asset value	A	A/B	A	A	B/C	B	C
Condition and performance	C	B/C	C	A/B	B/C	C	C

Key challenges

- Our confidence in our asset data needs to improve.
- Many types of road defects, such as slumping of the road surface, are caused by underground issues that can't be seen or monitored.
- Closed circuit television inspection of pipelines has limited value because it doesn't reveal the state of the outside of the pipe or inside the pipe wall. Proper pipe inspection needs to be done by laboratory testing pipe sections. CCTV inspection is also slow and expensive to do in bulk.
- Critical defects or condition failures in buildings may be hard to see, and complex plant and machinery needs to be checked by trained technicians. We don't have the inspections schedules we'd need in place to be completely sure of the condition of much of our property.

Key risks	Risk	Uncertainty
	If we have more assets than we have recorded, we would be underestimating renewals and depreciation expenses.	Low
	If we've underestimated condition and/or performance (it's actually better than we think) then we may be programming a higher level of renewal than is necessary. If we've overestimated it (it's actually worse than we think) then we may have to do more reactive repairs than what we're forecasting.	Low/Medium
Implications	<ul style="list-style-type: none"> Collection of asset data, including condition and performance data, must continue to make sure that our operations, maintenance and renewal forecasting is based on reliable data. Registers of reliable asset and work data need to be improved and continuously maintained. 	

Natural hazards and climate change

GWRC has commissioned studies to help councils, local communities, businesses, central government agencies and stakeholder groups better understand the impacts of climate change. The data from these studies will be used by Porirua City to develop its future scenarios.

Assumptions

- The frequency and magnitude of adverse weather-related events in the Wellington region will increase over time. Warmer temperatures, heavier rainfall, higher winds, prolonged periods of drought and rising seas will have some impact in the region over the next ten years, and will continue to worsen beyond the timeframe of this Long-term Plan. These events will impact on our infrastructure and our communities, especially those near the coast or in flood-prone areas.

- A magnitude 7.5 earthquake or greater will have a significant impact on our infrastructure.
- We will become increasingly resilient: our communities, infrastructure, transport systems and our regional economy will adapt so it can deliver efficiently and effectively in the face of natural hazard events.
- Our emergency management office is preparing staff and the community in natural disaster response. Preparation and training assumes a strong likelihood that most of the city's key infrastructure networks will be unable to provide service, and that the city will be physically isolated from the rest of the region.

Temperature

Overall annual regional temperatures will increase by 3°C. Compared with 1995, temperatures are likely to be 0.7°C to 1.1°C warmer by 2040 and 0.7°C to 3.0°C warmer by 2090. By 2090, Wellington may have from 6 to 40 extra days per year where maximum temperatures exceed 25°C, with around 5 to 13 fewer frosts per year.

Rainfall

Rainfall will vary locally within the region. In Porirua rainfall may increase through all seasons and by up to 15 per cent in winter. Rare, large extreme rainfall events are likely to increase in intensity, due to more moisture being held in a warmer atmosphere.

Wind

The frequency of extremely windy days in the Wellington region by 2090 is likely to increase by 2 to 3 per cent. There may be an increase in westerly wind flow during winter, and north-easterly wind flow during summer.

Storms

Future changes in the frequency of storms are likely to be small compared with natural inter-annual variability. Some increase in storm intensity, local wind extremes and thunderstorms is likely to occur.

Sea level rise

For planning and decision timeframes out to 2090–2099, a base value sea level rise of 0.5 metres relative to the 1980–1999 average should be used, along with an assessment of potential consequences from a range of possible higher sea level rise values.

Key challenges

Natural hazards

- Developing levels of service, increased cost of coastal and flood protection infrastructure.
- Getting agreement as to how the cost of ensuring our communities and infrastructure resilience is funded.
- Damage to the bulk water supply from a catastrophic event could severely compromise our ability to receive and distribute water.

Climate change

- The region needs to prepare for the inevitable (and ongoing) impacts associated with the greenhouse gases that have already been emitted globally.
- The implications of both the impacts, and any proposed adaptation responses need to be understood by everyone affected.
- Increased reactive workload and budgets is needed to respond to more intense and regular extreme weather events.

Seismic events

- Ensuring that our infrastructure is sufficiently resilient to mitigate the effects of a 7.5 magnitude earthquake.
- Ensuring households are prepared for the after effects of a major earthquake, especially with an expected prolonged denial of water supply.

Key risks	Risk	Uncertainty
	The ability of key infrastructure to cope with adverse events.	Low/Medium
	Lack of a coordinated response to the climate change issue might mean we don't do enough in time.	Low
	The insurance sector could stop providing insurance for particular hazards in some areas.	Medium
	At-risk locations affected by storm/wind events bringing down trees and severing transport links more regularly.	Low/Medium
	Catastrophic outages across all services may occur.	Low
Implications	<ul style="list-style-type: none"> We'll need to make maximum use of GWRC knowledge of our area at the catchment and local level and capability in natural hazard events. Increased size and nature of weather events (increasing flooding, storm events) will mean increased repair and insurance, and drive need for capital expenditure to make transport networks more resilient. It is likely to result in increased closures on transport networks in coastal, low-lying or slip-prone areas. Transport links to some areas may be affected as a result. Any major earthquake could have significant impacts on all services. Impacts from Wellington Water stormwater and flood channelling may be an issue, depending on methodology for managing extreme rainfall events. Building increased resilience into infrastructure to reduce operational repair costs may result in increased capital costs in the longer term. We may need to discuss adaptation or retreat strategies (relocating essential low-lying infrastructure) with communities affected by sea level rise. 	

Land use and the environment

The Council is currently reviewing its District Plan. Our goal is to have this operational by December 2020. The District Plan determines where different development activities can take place and will have an important influencing role in almost all of our service provision.

Assumptions

- Increases in urban growth and intensification could lead to increased pressure on transport and water supply both in urban and rural areas. This increase could also lead to increased pressure on our rural communities, and more demand for

the Council to provide better, more efficient technical/regulatory pathways.

- The highway status of SH1 and SH58 is likely to be revoked and these roads will pass into the Council's ownership.

Key challenges

- There will be changes in peak time demand on roads, changing public transport/public amenity requirements, changing requirements for WREMO as population shifts, increase in wastewater flows and a need for greater stormwater management.
- We need to restrict access and development to areas that we discover are prone to natural hazards.
- We need to understand the changes in communities better, so we can lead

the conversation around leadership and guardianship. As communities become more aware of the challenges, there is a likelihood that they will want to be more involved and we need to be able to accommodate this.

- Understanding tensions or differences between stakeholders in the environmental space will be valuable to determine our position and in order to understand the values associated with these points of view. Language needs to change (less statutory, more conversational).
- There is an increased perception of linkages between natural resource management and population health.

- The District Plan review may change where we currently think our major growth areas will be. For example it's possible that research findings for the District Plan may suggest that the northern growth area will grow more slowly than we'd previously predicted, but that other areas become promoted ahead of the northern growth area by way of more dense development within existing residential zones.
- If revocation of SH1 and SH58 goes ahead, this will make new areas of development possible will make new areas of development possible, especially within the northern growth area.

Key risks	Risk	Uncertainty
	Faster than expected urban growth could lead to greater demand on transport, stormwater, water supply and wastewater services, and other services.	Low
	Unless there is effective and joined-up planning between Porirua City, GWRC, community groups, industry leaders and government agencies, growth opportunities could be constrained, leading to housing supply constraint/increasing affordability concerns.	Low
	That the District Plan takes much longer than anticipated because of legal challenge, overwhelming submission numbers, or Council indecision. This could mean loss of developer confidence and uncertainty over the capacity for future growth.	Low
Key opportunities	<ul style="list-style-type: none"> The main opportunity from the District Plan review is to develop the District Plan with commitment to early community involvement in the draft chapters. We also have to opportunity, with the right planning, to ensure that core infrastructure is able to fulfil growth capacity now and in the future. 	
Implications	1-10 years <ul style="list-style-type: none"> Communities want to be more involved. We need to be communicating changes effectively and to communities regularly. We'll need the right technology and people to streamline our processes. 	11+ years <ul style="list-style-type: none"> The next District Plan review commences in 2027/28, areas not zoned for development now may be brought on line for new residential and business development.

Legislation and governance

Changes to key legislation (the Resource Management Act, the Local Government Act) will affect the way we provide services and perhaps even the types of services we may or may not provide. The Council will develop new ways of working collaboratively with our iwi partners and key stakeholders.

operative within the next two years. This will impact on resource consents required for our core services, especially stormwater, wastewater and landfill, by tightening restrictions and conditions on how to control the environmental impacts of these activities.

- This Long-term Plan assumes that Porirua City will remain in existence to provide its services to the Porirua community.

Assumptions

- Legislation impacting on local government will continue to evolve, with further changes to the Resource Management Act and Local Government Act.
- Greater Wellington Regional Council's Natural Resources Plan will become fully

Key challenges

- Changes to our key legislative frameworks may enable central government to direct creation of more council controlled organisations to manage key infrastructure.
- Council structures need to respond both to operational and regulatory challenges and shared resources.

Key risks	Risk	Uncertainty
	Significant changes in regulatory requirements, in particular the GWRC Proposed Natural Resources Plan may make it harder/more expensive to meet legal standards or conditions.	Medium/High
Implications	<ul style="list-style-type: none"> • The drive to devolve decision-making continues (changes in governance connecting directly with the “Partnering with Māori” and “Engagement” and will change the landscape/conversations that we have with iwi, stakeholders and customers). • Changes to legislation could result in changes to structures and roles between central, regional and local government. Safety legislation may require additional capital expenditure to eliminate/minimise hazards/risks. • Changes to legislation in response to the Productivity Commission report on Urban Planning and Urban Development Authorities could see changes to structures and roles between central, regional and local government, and greater coordination of urban growth and infrastructure planning. 	

Financial

This is a summary of our long-term financial planning assumptions covering revenue, expenditure, assets and our overall ability to deliver intended levels of service.

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 financial information has been prepared on the basis of best estimate assumptions as to the future events that the Council expects to take place and the recent economic shifts and conditions in the New Zealand economy, and internationally.

The basis of the forecast cost indices come from independent industry advice from Business and Economic Research Limited (BERL). BERL specifically forecasts for price level change indices adjustors for local authorities to use in the budget processes consistent with the Long-term Plan (LTP).

The BERL cost indices have been used for both operating and capital budgets as appropriate (these indices are based on a medium-term view and may differ on a particular year).

The Council has opted to use some of the BERL variables but in other cases, it has opted for amended variables or proxies. The Council has also opted to use an adjusted variable where there are likely to be higher costs in Porirua City than elsewhere in the Wellington region. This is an important factor going forward and needs to be reflected in the LTP estimates.

Where relevant, alternative price level changes and methods have been adopted for forecasting, taking into consideration the Council's accounting systems and processes. The Council has made a number of significant assumptions in the preparation of the financial forecasts in this LTP. The LTP covers a 20-year period and to ensure that there is a consistent and justifiable basis for the preparation of the financial forecasts, these assumptions are necessary.

Statutory framework

Schedule 10 of the LGA (2002) requires that the Council identifies the significant forecasting assumptions and risks underlying the financial information set out in long-term plans.

Forecasting assumptions	Risk	Uncertainty	Comments
Levels of service Demand for Council services and customer expectations regarding business as usual levels of service will not significantly change and there will be no significant effect on asset requirements or operating expenditure beyond those specially planned and identified within the LTP.	That there are significant changes in customer expectations regarding demand for services or levels of service from those planned in the LTP.	Low	The level of uncertainty is considered 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 the key assumptions made in the LTP and there are currently no known additional areas of the Council services that require significant modification.
Expected interest rates on investment	That the prevailing interest rates will differ significantly from those estimated.	Medium	Interest rates are largely driven by factors external to the NZ economy, over which the Council has no control. The Council is expected to plan and respond to any significant change or movement to interest rates on the Council projected investment levels and interests received through its annual plan and long-term plan review processes. As the Council holds minimal levels of investments, impact of changes in interest rates will not be large.
Expected interest rates on borrowings	That prevailing interest rates will differ significantly from those estimated.	Medium	Interest rates are largely driven by factors external to the NZ economy, over which the Council has no control. Forecast borrowing costs have been based on the current debt portfolio, and assumptions regarding the forecast amount of the Council debt borrowing, future borrowing margins and wholesale interest rates. Wholesale interest rates have been implied from the market interest rate yield curve. The margin assumption assumes the Council maintains its current credit rating of AA issued by Standard & Poors. The Council manages its exposure to adverse changes in interest rates through the use of interest rate swaps

Forecasting assumptions	Risk	Uncertainty	Comments
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	Inflation is affected by external economic factors, most of which are outside of the Council's control and influence. The Council has relied on the assumption that the Reserve Bank will use monetary controls to keep CPI within the 1.5% to 3.0% range. The Council's costs and the income required to fund those costs will increase by the rate of inflation. The Council is expected to carry out relevant monitoring and assessment of impact on the Council's financial position through its annual plan and long-term plan review processes.
Salary increases	That actual salary increases will differ significantly from those estimated.	Low/Medium	The Council has allowed for salary increases marginally higher than BERL in the first few years of the LTP, to make provision for minimum wage increases signalled by government.
Revenue from fees and charges It is assumed that modest price increases of 1.5% for non-regulatory and 3.0% for regulatory fees will be achieved over the 20 years of the LTP. Landfill price increases are assumed to be NIL 2018/19, 2.5% 2019/20 and then has limited growth.	That the revenue streams identified are influenced by changes in prices or the rate of inflation. The risk is also that the revenue streams identified fluctuate annually as a result of external factors outside the control of the Council.	Low	The level of uncertainty is considered low because it is reasonable to expect relevant revenue streams to be at least reflecting the costs of providing those services, and the levels of fee increase are assumed to be low. Although the revenue streams may vary annually due to factors outside the control of the Council, it is not considered that annual variances will have a material effect on the financial forecasts in the LTP. The Council is expected to respond and plan for any significant change to the revenue streams through its annual plan and long-term plan review processes.

Forecasting assumptions	Risk	Uncertainty	Comments
<p>New Zealand Transport Authority (NZTA) funding</p> <p>The Council has made assumptions on the level of subsidies it expects to receive from central government through NZTA over the period of the LTP.</p> <p>For non-Transmission Gully Motorway link road subsidised roading works, the NZTA funding Assistance Rates Review was finalised in October 2014.</p> <p>The agreed funding assistance rates for 2015–18 National Land Transport Programme (NLTP) period and at the end of the transition are as below:</p> <p>2018/19 51%</p> <p>2019/20 52%</p> <p>2020/21 53%</p> <p>2023/24 56%</p> <p>The NZTA assistance rate for Transmission Gully Motorway link road work is assumed to be 56%.</p>	NZTA make further changes to the subsidy rate, the funding cap or the criteria for inclusion in the subsidised works programme.	Low	<p>Variations in the subsidy rate of 1% would not materially impact the Council's funding stream, with the Council being able to respond for any significant change through its annual plan and long-term plan review processes.</p>
<p>Revocation of State Highway 1 and State Highway 58</p>	The Council is currently not prepared for increased costs and/or unexpected timing related to revocation.	Medium	<p>Transmission Gully Motorway is expected to be complete in 2020. At this time NZTA will look to hand ownership of the existing state highway routes to the Council.</p> <p>State Highway 1 and 58 potential revocation will increase the direct costs of maintaining these significant roading assets.</p> <p>The Council recognises that there will be operating cost implications, but until the negotiations with NZTA regarding ownership and funding arrangements are finalised, the extent of the cost implication is unknown.</p> <p>Due to uncertainty in the quantum of ownership cost, the Council has not included any financial implication in this LTP.</p>

Forecasting assumptions	Risk	Uncertainty	Comments
<p>Income from vested assets</p> <p>It is assumed that there will be an annual income from vested assets of \$8.6 million, being a mixture roads, reticulation and recreation land that are vested in the city through the subdivision process.</p>	That actual income received will be significantly different from those forecasts.	Medium	<p>The level of uncertainty is considered medium, as the degree of income received from this source depends on the rate of subdivision activity in the city, which can be reasonably volatile.</p> <p>As vested assets are excluded from the Council balanced budget calculation, the impact of any change will have a minimal impact on the Council's Financial Strategy.</p> <p>However, the Council will monitor and assess any future development work with respect to potential impact on the Council's financial position through its annual plan and long-term plan review processes.</p>
<p>Sale of assets</p> <p>We have assumed that the parcel of assets identified for sale will realise a net \$2 million that will be used to repay borrowing.</p>	That the funds from the sale of assets do not occur at forecasted levels or the timing of sales is delayed.	Medium	<p>If the funds received from asset sales are less than forecasted, then the 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 higher or lower, depending on the level of asset sales. If funds from the assets sales are delayed from that planned, then additional borrowing and interest costs will occur.</p>
<p>Sources of funds for the future replacement of significant assets</p> <p>It is assumed that the sources of funds for operating expenditure is as set out in the Revenue and Financing Policy and for capital expenditure in the relevant financial tables.</p>	Those sources of funds are not achieved.	Low	<p>The level of uncertainty is considered low as user charges have been set at previously achieved levels.</p> <p>Depreciation is now funded through rates and the level increases from 78% to 97% during the 20 years of the LTP.</p> <p>The Council is able to access borrowings at levels forecast within the LTP.</p>
<p>Renewal of external funding</p> <p>It is assumed that the Council will be able to renew existing borrowings on equivalent terms.</p>	That new borrowings cannot be accessed to fund future capital requirements.	Low	<p>The Council maintains its liquidity risk within limits, as set out in its Treasury Risk Management Policy, by maintaining a mix of current and non-current borrowings.</p> <p>In accordance with the Treasury Risk Management Policy, the Council must maintain its borrowing facilities at a level that exceeds 110% of peak borrowing levels over the next 12 months.</p>

Forecasting assumptions	Risk	Uncertainty	Comments
<p>Useful lives of significant assets</p> <p>The useful lives of significant assets are shown in the Statement of Accounting Policies</p> <p>It is assumed that there will be no reassessment of useful lives throughout the 20-year period. It is assumed that assets will be replaced at the end of their useful lives.</p> <p>Planned asset acquisitions (as per the capital expenditure programme) shall be depreciated on the same basis as existing assets.</p>	That assets wear out earlier or later than estimated.	Low	The level of uncertainty is considered low. The asset lives are based upon estimates made by engineers and registered valuers. Depreciation and interest costs would increase if capital expenditure was required earlier than anticipated.
	That the Council activities change, resulting in decisions not to replace existing assets.	Low	However, these impacts could be mitigated as capital projects could be reprioritised in the event of early expiration of assets.
	That the Council replaces assets before the end of useful life.	Medium	The Council has a comprehensive asset management planning process. Where a decision is made not to replace an asset, this will be factored in capital projections.
	That more detailed analysis of planned capital projects may alter the useful life and therefore the depreciation expense.	Medium	Asset capacity and condition is monitored, with replacement works being planned accordingly. Depreciation is calculated in accordance with accounting and asset management requirements.
<p>Asset revaluations</p> <p><i>Investment properties</i></p> <p>It is assumed that investment properties are revalued annually.</p> <p><i>Other assets</i></p> <p>It is also assumed that periodic revaluations of the Council's infrastructural assets and land and buildings will occur periodically and rise in value in line with the respective roading and pipeline adjustors above for infrastructural assets.</p> <p>For the purposes of forecasting the revaluations of asset classes for which a policy of revaluations is applied, an average inflation rate for the class of assets is utilised for each revaluation, based on the long run average inflation rate predicted for the 20-year period of the LTP and taking into consideration the period of time since the previous revaluation.</p>	That actual revaluation movements will be significantly different from those forecasts.	Medium	<p>The level of uncertainty is considered medium, as the Council's investment properties are all commercial in nature, and the value of such properties can be volatile according to the state of the economy. The impact of any such volatility on the Council's financial position and performance would be low, as these properties form a small part of the Council's asset and income base.</p> <p>The Council considered using the applicable projected inflation indices as a proxy for revaluation movements is appropriate and consistent with the treatment of price changes generally with the LTP.</p>

Period 2018-38	Year										1-10 year average	11-20 year average
	1	2	3	4	5	6	7	8	9	10		
Financing indices¹												
Risk free rate	3.2	3.2	3.3	3.4	3.4	3.5	3.5	3.6	3.6	3.7	3.4	3.9
Average investment interest rates (90 Days)	1.9	1.9	1.9	2.0	2.1	2.4	2.6	3.0	3.6	4.3	2.6	4.3
Debt interest rates	4.8%	4.8%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.3%	5.4%	5.1	5.4
Cost indices²												
Operating expenses	2.0%	2.2%	2.2%	2.2%	2.3%	2.3%	2.4%	2.5%	2.5%	2.6%	2.3	2.6
Capital expenditure	2.0%	2.2%	2.2%	2.2%	2.3%	2.4%	2.4%	2.5%	2.6%	2.7%	2.4	2.7
Staff costs	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.1%	2.0	2.1
LGCI	2.0%	2.2%	2.2%	2.2%	2.3%	2.3%	2.4%	2.5%	2.6%	2.7%	2.3	2.7
Roading	2.0	2.2	2.2	2.3	2.4	2.4	2.5	2.6	2.7	2.8	2.4	2.8
Property	1.7	2.0	2.1	2.1	2.2	2.3	2.3	2.4	2.4	2.6	2.2	2.6
Pipelines	2.3	2.5	2.3	2.4	2.4	2.5	2.6	2.6	2.7	2.8	2.5	2.8
General price inflation³												
Consumer Price Index (CPI)	1.8	1.6	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	1.8	2.0
Revenue indicator⁴												
Regulatory revenue increase	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Non-regulatory revenue increase	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5

- Method used to derive financing cost indices included advice from Price Waterhouse Coopers and data from The Treasury.
- Method used to derive cost indices forecast included using BERL's Forecast Adjustor and other established forecasts.
- Method used to derive general price inflation included using BERL's Forecast Adjustor.
- Method used for calculating the revenue indicator is based on a high-level 20-year budgeting model that calculates the Council income and expenditure for that period based on current levels of income and expenditure, and using the projected price level change indicator. It is assumed that the full cost impacts will be passed on to the end user based on the Revenue and Financing Policy principle of charging to those who get the private benefit otherwise it would be rate funded.