

### **3. Significant Assumptions**

One of several key components of the Long Term Council Community Plan is the disclosure of significant forecasting assumptions and risks underlying the financial estimates. Due to the nature of the Long Term Council Community Plan as a strategic plan looking forward into the not so distant future, we must ensure the information on which decisions within the Plan have been made are reasonable and present minimal risk.

According to Schedule 10 of the Local Government Act 2002, which dictates the contents of the Long Term Council Community Plan, where there is a high degree of uncertainty we must identify the uncertainty and estimate the potential effects of that uncertainty on the financial estimates.

The forecasting assumptions include such matters as:

- Useful life of significant assets
- Sources of funds for the future replacement of these significant assets
- Growth (population vs household) and demand
- Inflation
- Depreciation

Forecasting Assumptions do not include statements of fact that fall within the decision-making discretion of the Council, nor do they include reasonably unlikely events or probabilities about which an assumption needs to be made. Such matters are included in the Activity Statements or description of activity groups in this document.

## List of Significant Assumptions

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<b>KEY ASSUMPTIONS</b>																																																																																																																													
<p><b>Inflation</b> - Business and Economic Research Ltd (BERL) provide independent inflation estimates. The numbers used are the confirmed figures from October 2008.</p> <p>Where local conditions can be shown to be different, these have been used.</p> <table border="1"> <thead> <tr> <th></th> <th>Road</th> <th>Property</th> <th>Water</th> <th>Energy</th> <th>Staff</th> <th>Other</th> <th>Pipelines</th> <th>Earthmoving</th> <th>Private sector labour</th> <th>FM Contract *</th> </tr> </thead> <tbody> <tr> <td>Jun-10</td> <td>3.3</td> <td>2.7</td> <td>3.8</td> <td>2.1</td> <td>2.6</td> <td>3.5</td> <td>3.7</td> <td>2.6</td> <td>3.4</td> <td>7.5</td> </tr> <tr> <td>Jun-11</td> <td>2.9</td> <td>3.1</td> <td>3</td> <td>2.3</td> <td>2.7</td> <td>3.3</td> <td>3.2</td> <td>3.2</td> <td>3.5</td> <td>7.5</td> </tr> <tr> <td>Jun-12</td> <td>2.9</td> <td>2.6</td> <td>2.8</td> <td>2.6</td> <td>2.7</td> <td>2.3</td> <td>3.1</td> <td>3.1</td> <td>3.4</td> <td>7.5</td> </tr> <tr> <td>Jun-13</td> <td>2.4</td> <td>2.8</td> <td>2.7</td> <td>3</td> <td>2.5</td> <td>2.4</td> <td>3.2</td> <td>3.2</td> <td>3.4</td> <td></td> </tr> <tr> <td>Jun-14</td> <td>2.3</td> <td>2.8</td> <td>3.3</td> <td>2.9</td> <td>2.5</td> <td>2.1</td> <td>3.1</td> <td>3.1</td> <td>3.7</td> <td></td> </tr> <tr> <td>Jun-15</td> <td>2.2</td> <td>2.9</td> <td>2.9</td> <td>3.3</td> <td>2.5</td> <td>2.2</td> <td>3.2</td> <td>3.2</td> <td>3.8</td> <td></td> </tr> <tr> <td>Jun-16</td> <td>2.3</td> <td>3</td> <td>3.5</td> <td>3.3</td> <td>2.6</td> <td>2.3</td> <td>3.8</td> <td>3.8</td> <td>3.4</td> <td></td> </tr> <tr> <td>Jun-17</td> <td>2.4</td> <td>2.6</td> <td>3.1</td> <td>3.3</td> <td>3.2</td> <td>2.3</td> <td>3.9</td> <td>3.9</td> <td>3.1</td> <td></td> </tr> <tr> <td>Jun-18</td> <td>2.4</td> <td>2.2</td> <td>3.2</td> <td>3.4</td> <td>2.7</td> <td>2.4</td> <td>3.5</td> <td>3.5</td> <td>3.2</td> <td></td> </tr> <tr> <td>Jun-19</td> <td>2.2</td> <td>2.3</td> <td>3.3</td> <td>3.5</td> <td>3.1</td> <td>2.5</td> <td>3.6</td> <td>3.6</td> <td>3.3</td> <td></td> </tr> </tbody> </table> <p>* From Jun-13 relevant inflation category used - eg water, property</p> <p>In the case of Roading costs – inflation estimates provided by Opus International Consultants Limited have been used. These are 2 – 3% higher than the BERL estimates but are believed to be a better estimate of future cost changes based on recent historic trends.</p>		Road	Property	Water	Energy	Staff	Other	Pipelines	Earthmoving	Private sector labour	FM Contract *	Jun-10	3.3	2.7	3.8	2.1	2.6	3.5	3.7	2.6	3.4	7.5	Jun-11	2.9	3.1	3	2.3	2.7	3.3	3.2	3.2	3.5	7.5	Jun-12	2.9	2.6	2.8	2.6	2.7	2.3	3.1	3.1	3.4	7.5	Jun-13	2.4	2.8	2.7	3	2.5	2.4	3.2	3.2	3.4		Jun-14	2.3	2.8	3.3	2.9	2.5	2.1	3.1	3.1	3.7		Jun-15	2.2	2.9	2.9	3.3	2.5	2.2	3.2	3.2	3.8		Jun-16	2.3	3	3.5	3.3	2.6	2.3	3.8	3.8	3.4		Jun-17	2.4	2.6	3.1	3.3	3.2	2.3	3.9	3.9	3.1		Jun-18	2.4	2.2	3.2	3.4	2.7	2.4	3.5	3.5	3.2		Jun-19	2.2	2.3	3.3	3.5	3.1	2.5	3.6	3.6	3.3		That Council's inflation will be significantly higher than projected. These are national figures, with insufficient information to prepare robust local figures.	Low	Moderate	Could impact on the timing of improvement projects.
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<p><b>Population Growth</b> – Population growth has been allowed for at a rate equivalent to the medium projection made by Statistics NZ. (Source: Statistics NZ Projected Population) District: -1.1% between 2009 and 2019.</p>	That population growth is higher than predicted.	Low	Low	Will put pressure on Council to provide additional infrastructure and services. Small increases can be covered, but infrastructure extensions into new subdivisions will																																																																																																																									

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<p>Increasing ageing population:</p> <table border="1"> <thead> <tr> <th></th> <th>Total population</th> <th>% above 65 years</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>13250</td> <td>13.2</td> </tr> <tr> <td>2021</td> <td>13050</td> <td>23.4</td> </tr> </tbody> </table>		Total population	% above 65 years	2006	13250	13.2	2021	13050	23.4	That population growth is lower than predicted.	Moderate	Low	<p>be costly.</p> <p>May put pressure on Council to maintain existing infrastructure and services while the rating base falls.</p> <p>(Official population projections are based on a standard set of variables that do not tend to change quickly (fertility, mortality and migration)).</p>
	Total population	% above 65 years											
2006	13250	13.2											
2021	13050	23.4											
<p><b>Housing Growth –</b></p> <p>Total new Dwellings/Relocates per year - 75</p> <p>This is based on housing growth not declining with the population as there has been a trend to a lower number of people per household.</p>	<p>That housing growth is higher than predicted.</p> <p>That housing growth is lower than predicted.</p>	<p>Moderate</p> <p>Moderate</p>	<p>Low</p> <p>Low</p>	<p>Will put pressure on Council to provide additional infrastructure.</p> <p>(These figures are based on previous 7 year actual figures taken from building consent data. However this was a period of growth, with lower figures this year. More weight has been placed on this year's numbers to make this assumption.)</p>									
<p><b>Climate Change and Natural Disasters</b> - Climate change predictions are that storm events will become more frequent and be more intense. However, no additional allowance has been made for emergency work other than that funded from normal budgetary provisions.</p>	Emergency work is required that can not be funded from normal budgets.	Low to Moderate	High	<p>The potential effect of a natural disaster on Council is dependent upon the scale, duration and location of the event. Council holds approximately \$1.2m in reserve funds for such events. (The central government Rooding Subsidy is based on a sliding scale to compensate for natural disaster )</p>									

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<p><b>Climate Change Response (Emissions Trading) Amendment Act –</b> In the absence of more detailed information - the only costs flowing from any emissions trading scheme (above the provision made in the BERL inflation estimates) is in water and wastewater where a one off 1.1% cost in 2010/11 has been added to operational and renewal costs and a 1.1% increase in capital costs. Solid waste activity includes no impact based on advice from our Landfill engineers - Tonkin &amp; Taylor.</p>	The cost will be significantly different to those forecast in the BERL figures, as a result of the Act's review.	Moderate	Moderate	Variation in the actual effect of emissions trading is likely, although not all additional costs are likely to be able to be recovered fro user charges.
<p><b>Interest Rates –</b> Interest on debt is calculated at 8% per annum based on 20 year borrowing. This is assumed to provide the best intergenerational equity without the excessive interest cost borrowing in the longer term would require.</p> <p>In both cases the interest rate assumed is based on a mix of age and maturity to provide an average rate This mix will be determined based on advice from First NZ Capital as loans are either drawn down or replaced.</p>	Interest rates will be significantly higher than projected.	Moderate	The estimate of effect of 1% increase in rate will impact on borrowings by \$700 per annum /\$100,000 borrowed.	The cost of debt servicing of many 'big ticket' items in the Long Term Council Community Plan such as water treatment and oxidation pond upgrades may be underestimated.
<p><b>New Zealand Transport Agency subsidy (NZTA) -</b> Subsidy rates and criteria will remain the same or similar (presently 57%).</p>	The subsidy rate may fall, reducing the amount of subsidy paid to Council.	Low for 3 years, then high	Moderate	The subsidy is the largest source of Council revenue after rates and is projected at a base rate of 57%. This is to be set for 3 years, then will become contestable within the Hawke's Bay Region. There is no indication of any possible adjustment after three years.

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<p><b>Funding Sources</b> – the Plan recognizes a level of user pays (Fees and Charges) which are considered achievable – without incurring any negative effect. (ie were Transfer Station charges increases significantly – there would be increased illegal dumping which would require Council to incur additional cost).</p> <p>Dividends from Council’s minority shareholding in Infracon Limited have been recognized at recent historic levels. It is accepted that this is highly conservative but the volatility of the economic sector in which that company operates – has suggested that a conservative approach is warranted.</p>	<p>A greater recovery of costs through user charges may not be achievable.</p> <p>That economic conditions result in no dividends being declared.</p>	<p>Moderate in some activities</p> <p>Low</p>	<p>Moderate in some activities</p> <p>Low</p>	<p>Amounts not able to be recovered through user charges will have a rating effect.</p> <p>Council recognizes that its contractual relationship with Infracon is more important to Council’s operations in the short term rather than maximizing the dividend stream – but believes that it is unacceptable for the Infracon Board not to meet the targets set in its Statement of Intent in the longer term. The Infracon investment represents a significant part of this Council’s reserves which cannot be “at risk” – and requires to be managed accordingly.</p>
<p><b>Revaluation</b> – With the exception of Land (assumed 10% tri annually) and Roading (assumed 5% per annum), annual BERL figures have been used to estimate changes in asset valuation for calculating depreciation.</p>	<p>A revaluation may alter the depreciation expense.</p>	<p>Moderate</p>	<p>Low</p>	<p>The renewals in Water, Waste Water and Stormwater operations are based on funding depreciation. Any under funding of depreciation would affect the level of renewals.</p>
<p><b>Depreciation</b> – based on BERL figures as above. New capital works will be depreciated according to their expected life for utilities and roading. (The Accounting Policy on page 147. Details the expected lives of different asset classes)</p>	<p>That depreciation is not being collected at the correct level.</p>	<p>Moderate</p>	<p>Moderate</p>	<p>Ratepayers are faced with loans and debt servicing costs to replace existing assets at the end of their lives.</p>

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<b>Contracts</b> – there may be significant variations in terms of price from the re-tendering of operations and maintenance contracts. In the case of the Facilities Maintenance Contract the forecast increase is 7.5% for three years and annual BERL inflation figures thereafter.	There is a significant variation in price from re-tendering contracts.	Low year 1-3 Medium years 4-10	Low Medium	Tenders are currently more competitive than in previous years. The risk is likely to come from fluctuating input prices – fuel, construction materials. If contract prices were to increase significantly, Council would be forced to review the amount of work programmed and undertaken – likely impacting on the timing of projects.
<b>Capital Works Costs</b> – the costs of major capital works will not vary significantly from the estimates at concept stage.	That some project costs are greater than estimated, resulting in increased debt levels.	Moderate to High	Moderate	Council has less confidence in the long-term cost projections of capital projects due to fluctuations in the economy, growth patterns, consent conditions etc.
<b>Central Government Reform</b> - There will be no effect of central government-initiated structural reforms in areas such as land transport, emergency management, or further devolution of responsibility (without providing sufficient funding).	There will be structural reforms initiated by central government that impact on local government.	Moderate		While change is likely, the implications can not be quantified. In addition, some changes may result in positive outcomes for the Council, where responsibility for activities passes from Council to central government agencies/appropriate funding to Council to undertake devolved activities.
<b>No changes to legislation</b> likely to increase the cost of service delivery	Recent legislation – such as the Waste Minimisation Act – have introduced costs to Council – not all of which are recoverable through user charges.	Moderate	Moderate	Asset Management Plans take account of known legislative changes – but the passing on of central government costs without the ability to recover these costs in user charges will have a direct impact on the ability of Council to provide its committed levels of service.

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<p><b>Cemeteries</b> – one district wide cemetery in Waipawa will be used once existing local cemeteries are filled, except for Porangahau township, where a new cemetery is being investigated.</p>	<p>That there are significant changes in customer expectations.</p>	<p>Low</p>	<p>Low</p>	<p>The community has largely defined the levels of service taking into account what they receive and how much they are prepared to pay for that level of service.</p>