
SIGNIFICANT FORECASTING ASSUMPTIONS:

Our 10-year plan

Wellington City Council's Draft Long-term Plan 2015-25

2015-2025 LTP – Draft 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:			
<p>Strategic Direction The strategic direction set out in the <i>Wellington 2040: Smart Capital</i> strategy will influence the way the Council delivers services and infrastructure to Wellington’s residents.</p> <p>Achieving the strategic directions will ensure Wellington thrives and prospers and is resilient against threats, both natural and economic.</p> <p>The strategy is supported by Wellington’s residents.</p> <p>Our four strategic goals are our community outcomes:</p> <ul style="list-style-type: none"> • People City • Eco City • Connected City • Dynamic Central City 	<p>That the strategic directions will not lead to Wellington prospering and thriving.</p>	<p>Low</p>	<p>The <i>Wellington 2040: Smart Capital</i> 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.</p> <p>The Strategy builds on strengths and mitigates against threats.</p> <p>The strategy’s overarching vision and 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.</p>

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty																																				
<p>Projected growth in the Wellington City economy:</p> <ul style="list-style-type: none"> • GDP Growth 2015-25 (Aspirational Scenario): 3.1% per annum • Employment Growth 2015-25 (Aspirational Scenario): 1.7% per annum <p>Economic growth assumptions inform the Council's Financial Strategy and aids decision-making for the LTP. This year our assumptions are informed by BERL Economics based on growth scenarios for the Wellington region and councils to 2041. The modelling considers four alternative futures for the Wellington Region – Business as Usual, IT, Infrastructure and Aspirational. The alternative futures (scenarios) consider the impact of various strategies on employment and GDP.</p>	<p>That economic growth is lower than forecasted due to:</p> <ul style="list-style-type: none"> • Local infrastructure not aligned to key regional infrastructure projects to ensure scale and needs are met by businesses and residents • Strategies not developed to attract and retain skilled workers • Land use planning and zoning not keeping pace with substantial population and employment growth • Council not investing in key projects to achieve economic development at forecasted levels. • Counter-cyclic trends in underlying economic growth despite Council's efforts to stimulate economic activity. 	Moderate	<p>Economic growth impacts on affordability of Council rates and the utilisation of services with a user charge funding component as discretionary income is impacted. This in turn may drive changes to both operational and capital expenditure. The economic outlook also affects local businesses, level of employment and the rate of development which means it is closely correlated to the level of growth in the ratepayer base.</p> <p>It is noted that the aspirational scenario forecast is based on estimated impact of economic development activities under the Wellington Regional Strategy (WRS), rather than economic development projects specific to Wellington City Council.</p>																																				
<p><i>Projected growth change factors:</i></p> <table border="1" data-bbox="165 938 627 1369"> <thead> <tr> <th>Year</th> <th>Population forecast</th> <th>Households forecast</th> </tr> </thead> <tbody> <tr><td>2015</td><td>202,669</td><td>76,145</td></tr> <tr><td>2016</td><td>203,933</td><td>76,807</td></tr> <tr><td>2017</td><td>205,199</td><td>77,495</td></tr> <tr><td>2018</td><td>206,665</td><td>78,201</td></tr> <tr><td>2019</td><td>208,056</td><td>78,914</td></tr> <tr><td>2020</td><td>209,473</td><td>79,607</td></tr> <tr><td>2021</td><td>210,826</td><td>80,272</td></tr> <tr><td>2022</td><td>212,083</td><td>80,947</td></tr> <tr><td>2023</td><td>213,615</td><td>81,635</td></tr> <tr><td>2024</td><td>214,854</td><td>82,308</td></tr> <tr><td>2025</td><td>216,289</td><td>82,984</td></tr> </tbody> </table>	Year	Population forecast	Households forecast	2015	202,669	76,145	2016	203,933	76,807	2017	205,199	77,495	2018	206,665	78,201	2019	208,056	78,914	2020	209,473	79,607	2021	210,826	80,272	2022	212,083	80,947	2023	213,615	81,635	2024	214,854	82,308	2025	216,289	82,984	<p>That growth is higher or lower than forecast thereby either putting pressure on Council to provide additional infrastructure and services or putting council at risk of over-investing infrastructure to cater for growth that does not eventuate.</p>	Low	<p>Low to Moderate growth can be accommodated within the present level of Council infrastructure. Where higher 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 would result in additional Council expenditure funded through new borrowings which would in turn result in increased rates. On average a \$1million increase in borrowing funded capex will result in a \$140,000 increase in rates.</p>
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Annual average	0.65%	0.86%																							
<p>City growth assumptions underpin the Council's Asset Management Plans, capital expenditure budgets, and level of services in the LTP.</p> <p>This year our assumptions are informed by Forecast.id for Wellington City modelling land development, housing markets and the role of suburbs. It is based on Statistics NZ data from the 2006 and 2013 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.</p> <p>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.</p>																									
<p>Growth in ratepayer base: Council plans to invest in a range of initiatives that it will provide an economic catalyst for the city which we forecast will provide ratepayer growth of:</p> <table border="0"> <tr><td>2015/16</td><td>1.0%</td></tr> <tr><td>2016/17</td><td>1.2%</td></tr> <tr><td>2017/18</td><td>1.5%</td></tr> <tr><td>2018/19</td><td>1.5%</td></tr> <tr><td>2019/20</td><td>1.8%</td></tr> <tr><td>2020/21</td><td>1.2%</td></tr> <tr><td>2021/22</td><td>1.0%</td></tr> <tr><td>2022/23</td><td>1.0%</td></tr> <tr><td>2023/24</td><td>0.8%</td></tr> <tr><td>2024/25</td><td>0.8%</td></tr> </table>			2015/16	1.0%	2016/17	1.2%	2017/18	1.5%	2018/19	1.5%	2019/20	1.8%	2020/21	1.2%	2021/22	1.0%	2022/23	1.0%	2023/24	0.8%	2024/25	0.8%	<p>The growth in the ratepayer base is higher or lower than projected.</p>	<p>Low – Moderate</p>	<p>The Council has used current property information from its valuation service provider (Quotable Value Ltd), forward looking consenting, and historic trends to assess the level of growth in rating units, together with longer term projections from the Forecast.id modelling used in the LTP. We are also utilising modelling prepared by Price Waterhouse Coopers to assess the potential impact each of the Council's economic investment projects will have on growth in the ratepayer base. The projected growth for 2015/16 to 2017/18 is considered robust, with a higher level of estimation for out-years. Accordingly we have been conservative with our growth estimates in years 4 -10 of the LTP.</p> <p>If growth is higher than forecasted, 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. If growth is lower than forecasted, the average rates increase for the ratepayer will be higher. The annual impact of a 1% of variance in growth in the ratepayer base is equivalent to approximately \$2.5m of rates.</p> <p>We plan to manage this risk by conducting detailed business cases for each investment to assess their cost effectiveness and economic contribution. We will also measure and report on growth in the rating base and</p>
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			review the projections and underlying strategy on a three yearly basis.
<p>Forecast cost savings and efficiencies The council is targeting savings of 1% of funded operating expenditure from shared services initiatives and a range of procurement related programmes each year of the LTP, equating to approximately \$50m.</p> <p>This ongoing review will focus on:</p> <ul style="list-style-type: none"> 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, increased asset utilisation, holdings and potential income-generating opportunities. iv. Organisational alignment and increased use of inter council shared service alignment 	<p>That council does not achieve the forecast level of savings.</p> <p>Note that in making any decisions the Council will:</p> <ul style="list-style-type: none"> • 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 – Moderate	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.
<p>Levels of Service Demand for Council services and customer expectations regarding business as usual levels of service will not significantly change and therefore there will be no significant effect on asset requirements or operating expenditure beyond those specifically planned and identified within the LTP.</p>	That there are significant changes in customer expectations regarding demand for services or levels of service from those planned in the LTP.	Low	<p>The Council has well defined service levels for its planned activities which have been reviewed as part of the LTP process.</p> <p>Customer satisfaction surveys and other engagement strategies generally support the key assumptions made within the LTP and therefore there are currently no known additional areas of the Council’s service that require significant modification.</p>
<p>Funding for major economic growth initiatives The 2015-2025 LTP identifies a number of projects that we forecast will provide a catalyst for economic and</p>	That the funding allocated will be insufficient to fund all of the projects identified.	Moderate	Each of the major economic projects identified within the plan will undergo a robust business case to assess their cost effectiveness and anticipated contribution to the city

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<p>rating base growth in the city. These projects which include funding for urban development initiatives that provide a catalyst for growth and potential investment in extension of the airport runway, a film museum, indoor arena, film and tech hubs and targeted events. These projects are at different stages of development. Specific costs and timing will be clearer as we work through the project phases. Despite this uncertainty it is important that we show through the financial strategy and LTP the capacity the Council has to invest in these projects over the 10 year period of the LTP. To cater for these uncertainties we have used an envelope budgeting approach in years 4 to 10, incorporating \$200m of capital expenditure funding for economic catalyst projects and an additional \$76m for urban development projects. In addition we have assumed that \$100m of the total \$1.9 billion of asset investment planned across the 10 years of the LTP will be funded by an external party. We will continue to budget for the associated debt servicing costs but transfer the capital risk and debt from the Council's balance sheet.</p>			<p>economy. We cannot yet be certain that all these projects will proceed. Given the lead time it is also likely that a significant proportion of the investment will not be incurred in the first three years of the LTP. This will provide an opportunity to review the envelope funding allocation as part of the subsequent LTP in 2018.</p>
<p>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.</p>	<p>Conditions of resource consents are altered significantly. Council is unable to renew existing resource consents upon expiry.</p>	<p>Low</p>	<p>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.</p>
<p>Development Contributions Significant assumptions in relation to development contributions are included within the Development Contributions Policy.</p>	<p>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.</p>	<p>Moderate</p>	<p>The growth assumptions within the Development Contributions Policy are considered robust as they are based on the Forecast.id 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.</p>

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<p>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 natural disaster cannot be accurately predicted (and therefore the response required), increased community preparedness and regional consistency are cornerstones of our approach.</p> <p>In line with the rest of NZ, we follow the “4Rs”:</p> <ul style="list-style-type: none"> ▪ Reduction of risk ▪ Readiness for an event ▪ Response when it occurs; and ▪ Recovery, post-event. <p>The focus areas for disaster preparedness within our plan are:</p> <ul style="list-style-type: none"> ▪ Earthquake prone buildings ▪ Water ▪ Wastewater ▪ Transportation ▪ Electricity ▪ Gas ▪ Telecoms ▪ Welfare ▪ Community preparedness <p>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.</p>	<p>That a significant event occurs (e.g. a major earthquake) and:</p> <ul style="list-style-type: none"> ▪ insufficient risk reduction 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. 	<p>Low</p>	<p>Although the probability of a major earthquake or other natural disaster within the lifespan of the LTP is low, we 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, 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.</p> <p>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 the LTP.</p>
<p>Government Policy Most of the local government reforms are in place. No major changes to the Local Government Act are foreseen and assumed over the period of the LTP. That the Government policy framework will continue to provide a stable working and statutory framework.</p>	<p>That Government policy framework shifts, resulting in new or amended legislation</p>	<p>Moderate</p>	<p>The nature and significance of new or amended legislation will determine the level of response required, cost to implement and administer by Council, or result in a change to the services delivered by the Council. RMA changes might be significant but will not happen overnight.</p>

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Changes to the Resource Management Act (RMA) is expected.			
<p>Regional Governance Review The LTP assumes continuation of the current local authority structure within the Wellington Region. 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. In December 2014 the Local Government Commission announced a draft proposal for a single two tiered Council for the entire Wellington. Consultation on this proposal will close in 2015. At this stage there is insufficient certainty that the proposal will succeed to consider the impact of this structure within the Council's 2015-2025 LTP.</p> <p>Council's plan does reflect the impact of other decisions made collectively by the Councils in the region, including the formation of the Wellington Regional Economic Development Agency and the expansion of Wellington Water to serve the entire metropolitan area.</p>	That councils in the region fail to lead a public discussion and reach a united and acceptable position on the issue of governance reform leading to inappropriate and/or rushed change is imposed by central government.	Moderate	<p>Any change in governance arrangements for the city and region could impact on levels of service and their costs, and alter the LTP forecast.</p> <p>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. Should change be supported – and pass a community poll – any impact in terms of structure, services and costs would likely only impact on the out-years of the long-term plan (years 4-10.)</p>
Significant Financial Assumptions:			
<p>Inflation The Council has adjusted base financial projections to reflect the estimated impact of inflation.</p>	That actual inflation will be significantly different from the assumed inflation.	<p>Low - Moderate Years (1-3)</p> <p>Moderate - High Years (4-10)</p> <p>High Years (11-30)</p>	<p>Inflation is affected by external economic factors, most of which are outside of the Council's control and influence.</p> <p>Council's costs and the income required to fund those costs will increase by the rate of inflation unless efficiency gains can be made.</p>
Inflation Rates Applied:			While individual indices will at times vary from what has

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Inflation rates have been estimated using the BERL "Forecasts of Price level Change Adjustors to 2025." The applicable rates are (shown cumulative):			been included in this LTP, the Council has relied on the assumption that the Reserve Bank will use of monetary controls to keep CPI within the 1.5 to 3% range.																																																																																								
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<p>Application of the Inflation Rates: The inflation rates above have been applied across all items within the financial statements with the exception of:</p> <p>Revenue from investment properties – not inflated as most ground leases are subject to fixed rentals across the period.</p> <p>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.</p> <p>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.</p>	<p>That the revenue streams identified are influenced by changes in prices or the rate of inflation.</p> <p>That the revenue streams identified fluctuate annually as a result of external factors outside the control of the Council.</p> <p>N/A</p>	<p>Low</p> <p>Low – Moderate</p> <p>Moderate</p>	<p>The assumption is considered reasonable in these cases due to the specific circumstances noted.</p> <p>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.</p>																																																																																								

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<p>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.</p> <p>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.</p>	<p>That cost pressures experienced by organisations receiving grants is such that Council are inclined to increase grant funds available.</p> <p>N/A</p>	<p>Moderate</p>	<p>While no inflation is applied to grant funding the actual level of funding proposed is reconsidered on an annual basis taking these factors into account.</p>
<p>Expected interest rates on borrowings Interest is calculated using the following interest rates:</p> <p>2015/16 5.60% per annum 2016/17 6.00% per annum 2017/18 6.00% per annum 2018/19 6.00% per annum 2019/20 6.30% per annum 2020/21 6.30% per annum 2021/22 6.30% per annum 2022/23 6.75% per annum 2023/24 6.75% per annum 2024/25 6.75% per annum</p>	<p>That prevailing interest rates will differ significantly from those estimated.</p>	<p>Moderate</p>	<p>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 0.1% movement in interest rates will increase/decrease annual interest expense by between \$200,000 and \$550,000 per annum across the ten years of the LTP.</p>
<p>Expected return on investments: Council has forecast the following returns for significant investments:</p>			
<p>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. The forecast annual dividend from Wellington International Airport Limited is \$11 million for 2015/16.</p>	<p>That Council will not achieve the forecast level of dividends</p>	<p>Moderate</p>	<p>The level of dividend is dependent on the financial performance of the company. If the actual returns are significantly less than forecast, the council will need to look for alternative funding through rates or borrowings. If the actual returns are significantly more than forecast, the Council may be able to reduce rates or forecast borrowings.</p>

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<p>Wellington Cable Car Limited – it is assumed that the Council will retain its existing investment at current levels with the exception of a \$2.5 million investment in 2016/17 to fund replacement of the electric drive for the Cable Car. No dividends are assumed across the 10 year period</p> <p>The Greater Wellington Regional Council has signalled that the Wellington trolley-bus network will be decommissioned in 2017. WCC has written down the carrying value of its overhead wires & pole network accordingly, but has assumed that GWRC will meet any costs of dismantled the network.</p>	<p>That actual levels of dividends differ from those forecasted in the plan.</p> <p>The WCC incurs some cost in decommissioning the network.</p>	<p>Low</p> <p>Moderate</p>	<p>The level of dividend is dependent on the financial performance of the company. If the actual returns are significantly less than forecast, the council will need to look for alternative funding through rates or borrowings. If the actual returns are significantly more than forecast, the Council may be able to reduce rates or forecast borrowings.</p> <p>WCCL is currently undertaking an assessment of the cost of decommissioning. Until this is know the cost implications for GWRC and WCC are unknown.</p>
<p>Wellington Regional Stadium Trust loan – in accordance with the terms of the loan, no interest has been forecasted across the 10 year period.</p> <p>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.</p>	<p>That the loan will not be repaid</p>	<p>Low</p>	<p>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 information / reason to suggest that the Trust will not be in a position to repay the Council's loan.</p>
<p>Convention Centre It is assumed that the operating costs of the proposed Wellington Convention Centre will be offset by dividends of \$1.4m in 2020/21, increasing to \$2.2m in 2024/25.</p>	<p>That operating profits and the dividend returned to Council are lower than forecast</p>	<p>Moderate</p>	<p>Profit and dividend forecasts assume a mid-case scenario based on a business case with robust and sound assumptions. A range of industry experts (including Price Waterhouse Coopers, BERL Economics, Howarth HTL Ltd, and Covec Ltd) were engaged in preparing market analysis, economic projections, property advice and assessment, and reviewing the draft business case. It is also prepared in full knowledge of the planned developments in other regions.</p>
<p>New Zealand Transport Authority (NZTA) funding Council has made assumptions on the level of subsidies it expects to receive from central government through the NZTA over the period of the LTP. The NZTA Funding</p>	<p>NZTA make further changes to the subsidy rate, the funding cap or the criteria for inclusion in the subsidised works programme.</p>	<p>Low</p>	<p>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.</p>

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
<p>Assistance Rates Review was finalised in October 2014. The agreed funding assistance rates for both the 2015-18 National Land Transport Programme (NLTP) period and at the end of the transition are as below:</p> <p>2015/16 48%</p> <p>2016/17 49%</p> <p>2017/18 50%</p> <p>2023/24 51% (end of transition)</p>			
<p>Vested assets No vesting of assets is forecast across the 10 year period.</p>	That Council will have assets vested thereby increasing the depreciation expense in subsequent years.	High	<p>The level of vested assets fluctuates considerably from year to year and is unpredictable. Historical levels have not been material. The recognition of vested assets in the income statement is non-cash in nature and will have no effect on rates.</p> <p>The financial effect of the uncertainty is expected to be low.</p>
<p>Sale of Assets We have assumed asset sales of \$52m will be realised to repay borrowings across the 10 year period.</p>	That the sale of assets do not occur at forecasted levels	Moderate	<p>If the level of asset sales is less than forecasted, either our level of debt will increase by the relevant amount or Council may consider revising its level of asset investment. The interest cost of servicing this debt will be lower or higher depending on the level of asset sales.</p>
<p>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)</p>	That sources of funds are not achieved	Low	<p>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.</p>
<p>Useful lives of significant assets The useful lives of significant assets is shown in the Statement of Accounting Policies (refer page xx).</p> <p>It is assumed that there will be no reassessment of useful lives throughout the 10 year period.</p>	That assets wear out earlier or later than estimated.	Low - Asset lives are based upon estimates made by engineers and registered valuers.	<p>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.</p> <p>However, these impacts could be mitigated as capital projects could be reprioritised in the event of early expiration of assets.</p>

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
<p>It is assumed that assets will be replaced at the end of their useful life.</p> <p>Planned asset acquisitions (as per the capital expenditure programme) shall be depreciated on the same basis as existing assets.</p>	<p>That Council activities change, resulting in decisions not to replace existing assets.</p> <p>That Council replaces assets before the end of useful life.</p> <p>That more detailed analysis of planned capital projects may alter the useful life and therefore the depreciation expense.</p>	<p>Low</p> <p>Low</p>	<p>Council has a comprehensive asset management planning process. Where a decision is made not to replace an asset, this will be factored into capital projections.</p> <p>Asset capacity and condition is monitored, with replacement works being planned accordingly. Depreciation is calculated in accordance with accounting and asset management requirements.</p>
<p>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:</p> <ul style="list-style-type: none"> • 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 (e.g. land) is forecast to remain constant. 	<p>That actual revaluation movements will be significantly different from those forecast</p>	<p>Low</p>	<p>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.</p> <p>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.</p>
<p>Revaluation of investment properties It is assumed that the value of investment properties accounted for at fair/market value will remain constant across the 10 year plan.</p>	<p>That actual revaluation movements will be significantly different from those forecast</p>	<p>Moderate</p>	<p>For assets valued at market value (based on sales evidence), values have been assumed to remain constant. This assumption has no impact on depreciation as these assets are not depreciated.</p>
<p>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.</p>	<p>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</p>	<p>Low</p>	<p>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.</p>

Forecasting Assumptions	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
	to each guarantors relative rates income.		
<p>Renewal of External Funding It is assumed that 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 minimises its liquidity risk by maintaining a mix of current and non-current borrowings in accordance with its Investment and Liability Management Policy.</p> <p>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.</p>
<p>Weathertight Homes The Council will continue to spread the cost incurred by Council in settling weathertight homes claims by funding claims from borrowings and spreading the rates funded repayment across a number of years. The LTP assumes that the Council's weathertight homes liability will be fully settled and the associated borrowing repaid over the 10 years of this LTP.</p>	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 \$50m, a 1% change in this figure would equate to \$0.5m.