

Assumptions

Council is required to identify the significant forecasting assumptions it has made in preparing its ten year Long Term Plan. Assumptions are necessary to allow Council to plan for expenditure and costs over the next ten years. They are the best reasonable assessment made on the basis of currently available information.

Any assumptions that apply only to specific activities are included in the discussion on that activity.

Forecasting assumptions	Risk/ uncertainty	Impact	Comment/ mitigation
<p>Population growth: Based on advice from Statistics New Zealand in February 2015, the population in Nelson has grown faster than was expected. Nelson's population is expected to grow by 3,600 residents in the next ten years to almost 53,400 by 2025.</p> <p>The age group with the biggest proportional increase is those over 75 years, which will rise from 8% in 2015 to 20% by 2045.</p> <p>The rate of population growth is then expected to slow down after 2025, reaching 56,000 in 2045.</p> <p>The number of households in Nelson is projected to increase by about 1,800 in the next 10 years to reach almost 22,400 in 2025, and almost 24,200 in 2045.</p> <p>Approximately half of the growth during the life of this Long Term Plan will be in the wider Stoke area.</p>	<p>Growth higher than projected, putting pressure on Council services and infrastructure.</p> <p>The age profile could vary from forecast, with more accelerated ageing putting pressure on certain services/facilities.</p>	Low	<p>Council takes a generally conservative approach in applying population growth estimates in its infrastructure planning, using a mid-range estimate and continually updating and revising as new data is available. This limits the risk exposure.</p>
<p>Affordability: The Nelson Tasman economy has grown more slowly than the national average for a number of years but overall has weathered the global economic downturn reasonably well. Council is taking a cautious approach to prospects for the regional economy, noting that the ageing demographic will bring older residents who are no longer in employment and potentially less able to afford increasing rates.</p>	<p>Economic pressures lead to more residents defaulting on rates payments than expected.</p>	Medium	<p>This will be a medium to long term impact particularly if, as predicted, the average retirement age also rises significantly.</p>
<p>Census data shows that those over 65 year olds in paid employment is less than the national average, however this may change as the age of superannuation entitlement may be raised over the period of this Long Term Plan.</p>	<p>There is a risk that as a result of a higher cost of living in the region and the</p>		<p>The risks of an ageing demographic may be balanced by the potential to bring economic</p>

ATTACHMENT 4

Forecasting assumptions	Risk/ uncertainty	Impact	Comment/ mitigation																																																							
Housing affordability in the area continues to be an issue, with Nelson remaining in the five least affordable regions in New Zealand (Statistics NZ, Roost).	higher percentage of older residents, that there may be difficulties in attracting key staff		opportunity to the region in specific industries such as retirement villages, and specialised services.																																																							
<p>Inflation/Price changes: Council uses inflation forecasts from Business and Economic Research Ltd (BERL) to estimate inflation over time. These figures were updated in September 2014, and are prepared specifically for Local Government. It is assumed that inflation rates are as predicted and modelled in budgets.</p> <table><tr><th>Year ending</th><th>CPI %</th><th>BERL LGCI Opex %</th><th>BERL LGCI capex %</th><th>BERL LGCI %</th></tr><tr><td>30-Jun-16</td><td>1.7</td><td>2.2</td><td>2.3</td><td>2.2</td></tr><tr><td>30-Jun-17</td><td>1.9</td><td>2.3</td><td>2.6</td><td>2.5</td></tr><tr><td>30-Jun-18</td><td>2.0</td><td>2.4</td><td>2.6</td><td>2.5</td></tr><tr><td>30-Jun-19</td><td>2.1</td><td>2.6</td><td>2.7</td><td>2.6</td></tr><tr><td>30-Jun-20</td><td>2.1</td><td>2.7</td><td>2.8</td><td>2.8</td></tr><tr><td>30-Jun-21</td><td>2.2</td><td>2.9</td><td>3.0</td><td>2.9</td></tr><tr><td>30-Jun-22</td><td>2.3</td><td>3.0</td><td>3.1</td><td>3.0</td></tr><tr><td>30-Jun-23</td><td>2.4</td><td>3.1</td><td>3.3</td><td>3.2</td></tr><tr><td>30-Jun-24</td><td>2.4</td><td>3.3</td><td>3.5</td><td>3.4</td></tr><tr><td>30-Jun-25</td><td>2.5</td><td>3.4</td><td>3.7</td><td>3.5</td></tr></table> <p>CPI = Consumer price index LGCI = Local government cost index Opex = Operating expenditure Capex = Capital expenditure</p>	Year ending	CPI %	BERL LGCI Opex %	BERL LGCI capex %	BERL LGCI %	30-Jun-16	1.7	2.2	2.3	2.2	30-Jun-17	1.9	2.3	2.6	2.5	30-Jun-18	2.0	2.4	2.6	2.5	30-Jun-19	2.1	2.6	2.7	2.6	30-Jun-20	2.1	2.7	2.8	2.8	30-Jun-21	2.2	2.9	3.0	2.9	30-Jun-22	2.3	3.0	3.1	3.0	30-Jun-23	2.4	3.1	3.3	3.2	30-Jun-24	2.4	3.3	3.5	3.4	30-Jun-25	2.5	3.4	3.7	3.5	Inflation higher than expected, increasing costs for Council.	Medium	<p>Likely to be some variation in actual rates of inflation from predictions and this will impact on the financial results of Council. Changing costs may mean the timing of projects needs to be adjusted.</p> <p>Council has relied on the current parameters the Reserve Bank is required to operate under in terms of inflation being held within the range of 1 – 3 %</p>
Year ending	CPI %	BERL LGCI Opex %	BERL LGCI capex %	BERL LGCI %																																																						
30-Jun-16	1.7	2.2	2.3	2.2																																																						
30-Jun-17	1.9	2.3	2.6	2.5																																																						
30-Jun-18	2.0	2.4	2.6	2.5																																																						
30-Jun-19	2.1	2.6	2.7	2.6																																																						
30-Jun-20	2.1	2.7	2.8	2.8																																																						
30-Jun-21	2.2	2.9	3.0	2.9																																																						
30-Jun-22	2.3	3.0	3.1	3.0																																																						
30-Jun-23	2.4	3.1	3.3	3.2																																																						
30-Jun-24	2.4	3.3	3.5	3.4																																																						
30-Jun-25	2.5	3.4	3.7	3.5																																																						
Interest rates: In preparing the LTP the Council has assumed an interest rate of between 5.15 and 5.45%. Assumptions are based on detailed analysis of the cost of both existing and future debts and anticipated interest rates.	The prevailing interest rates differ significantly from those estimated by the Reserve Bank of New Zealand.	Medium	Increase in interest rates flow through to higher debt servicing costs and higher rates funding requirements. The Council has mitigated these risks with a prudent hedging programme developed within																																																							

ATTACHMENT 4

Forecasting assumptions	Risk/ uncertainty	Impact	Comment/ mitigation
			the limits of a prudent treasury policy.
<p>Development contributions: Assumptions on development contributions are included in the updated Development Contributions Policy. With changes to the legislation around development contributions there is uncertainty about the level of contributions and any costs associated with the new processes. Council has assumed it will collect \$1.2 million per year in Development Contributions during the 10 year of the Plan.</p>	<p>The level of development contributions collected could be insufficient to cover the costs of required growth infrastructure.</p>	Low	Costs for infrastructure will need to be met from other allocations.
<p>Not all lots available for development will be developed during the 10 years of the Plan and therefore the development contributions collected will be less than the maximum calculated under the policy.</p>	Low	Low	Council has made a conservative estimate of income from development contributions.
<p>Climate change and natural disasters: It is assumed that natural disasters will occur with increasing frequency. This has been the experience of recent years and is consistent with predictions of climate change impacts. Exposure of low lying land to the risk of inundation from sea level rise is another assumption related to climate change. Council relies on Ministry for Environment guidelines in estimating sea level rise. Council's Land Development Manual currently provides for a 0.5m sea level rise by the end of the century but this will be reviewed in line with the latest MfE advice (1m for 100 years).</p> <p>The Nelson Tasman Civil Defence Emergency Plan states that the most significant natural hazards for Nelson are: earthquakes (greatest impact) and flooding (most likely).</p> <p>The probability of a magnitude 7 earthquake in Nelson is 87% in the next 50 years, and 98% in the next 100 years. The probability of a magnitude 8 earthquake is 43% in the next 50 years, and 67% in the next 100 years.</p>	<p>Climatic events lead to increased costs for Council in both responding to events and building greater resilience into infrastructure.</p>	Medium	<p>A characteristic of the Nelson community is the concentration of lifelines infrastructure (roading network, port, airport etc) on low-lying areas. Council has been increasing its contributions to the Emergency Fund as one method of mitigating the risk of natural disasters.</p>
<p>Hazards: It is expected that dealing with contaminated land in capital and maintenance projects will become more common as the</p>	<p>Investigation, consenting, handling and</p>	Medium	<p>Increased design and construction budgets in the</p>

ATTACHMENT 4

Forecasting assumptions	Risk/ uncertainty	Impact	Comment/ mitigation
HAIL register is refined and added to.	disposal of contaminated material lead to an increased overall cost of projects.		<p>annual and long term plans.</p> <p>If Council has made past decisions that were compliant with the legislation at the time of consent being granted, then it is unlikely that it would then be financially liable for remediation or mitigation of identified hazards after that time.</p> <p>In relation to the private use of land, council has a duty of care in issuing LIM's, and must ensure that an applicant has been informed properly and fairly about relevant features or characteristics of the land and its uses. Council includes HAIL information on LIM reports to ensure all known information is made available. In granting a resource consent, where there are likely or known hazards, then any consent issued requires these hazards or adverse effects to be mitigated or removed.</p>
Useful lives of significant assets: It is assumed that there will be no reassessment of the useful lives of assets during the 10 year period covered by this plan. The detail of useful lives for each asset category is covered	Assets wearing out earlier than predicted and funding needs to be found	Low	This may result in changes needing to be made to the underlying capital expenditure

ATTACHMENT 4

Forecasting assumptions	Risk/ uncertainty	Impact	Comment/ mitigation
in the Statement of Accounting Policies.	for replacements.		programme.
Loan arrangements: It is assumed that Council's bankers will continue to renew the existing loan facilities.	Access to committed loan facilities less than expected.	Low	The Local Government Funding Agency now in place should allow Council to diversify funding sources away from the local banks as well as being able to borrow for longer terms.
NZ Transport Agency funding: NZTA has reviewed the principals and methods used in setting its financial assistance rates. For 2015/16 the FAR will be 47% and will rise by 1% per year to 51% over six years.	NZTA providing less funding than currently indicated and Council's share of project costs therefore increasing.	Medium	Changes to the funding priorities of New Zealand Transport Agency are outside Council control.
Weather tight building claims: It is assumed that there will continue to be claims for weather tightness but these will not be significantly more than accounted for.	Claims on Council higher than forecast.	Medium	A higher level of claims would impact on rates by increasing the rate requirement.
Earthquake prone buildings: It is assumed that Council will face ongoing costs with regard to earthquake prone building assets, but that decisions about works to undertake and the timing of any necessary works will allow costs to be adequately spread. The proposed Building (Earthquake-Prone Buildings) Amendment Bill) proposes that Councils must complete seismic capacity assessments of specified buildings not later than 5 years after the day the Act comes into force.	New work is identified, or required work is more significant than anticipated.	Medium	Significant additional expenditure on earthquake strengthening buildings could not be met by the current budget.
Resource consents: It is assumed that resource consents held by Council will not be significantly altered and any due for renewal during the life of the plan can be renewed accordingly.	Conditions of resource consents altered and significant new	Medium	Budgets are in place for renewal of resource consents and there is no expectation of significant

ATTACHMENT 4

Forecasting assumptions	Risk/ uncertainty	Impact	Comment/ mitigation
	compliance costs or consents cannot be renewed as expected.		departure from requirements over the next 10 years.
<p>Vested Assets: It is assumed that vested assets increase by \$3m per year adjusted by inflation.</p> <p>Council assumes that the impact of vested assets will be neutral, in that the costs associated with the additional assets will be offset by a proportionate increase in rates revenue.</p>	That Council will have more assets vested thereby increasing the depreciation expense in subsequent years that is not offset by a proportionate increase in rates revenue.	Low	<p>Assets must be maintained by Council, so there would be an impact on costs if more assets than expected were vested in Council. An example of where a vested asset may increase cost to the Council is where land is bequeathed to be maintained as a reserve, or similar.</p> <p>Vested assets can fluctuate from year to year but the impact is ordinarily offset by a proportionate increase in rates revenue. It would be highly unusual for the Council to enter into an arrangement with a developer where the ongoing costs associated with the vested assets are disproportionate to the increase in rates revenue.</p>
<p>Insurance costs: It has been assumed that insurance premiums continue at current levels plus inflation and that we can get 100% cover and that the Local Authority Protection Programme Disaster Fund continues</p>	Premiums increasing above inflation and/or Council cannot get 100% cover.	Medium	Any increase in premiums above the level assumed will have an impact on rates. Council may need to make decisions about cover levels during

ATTACHMENT 4

Forecasting assumptions	Risk/ uncertainty	Impact	Comment/ mitigation
			10 year period.
<p>Return on investments: It is assumed that the return on investments and retained earnings on subsidiaries will continue at current levels plus inflation.</p> <p>While planning in the LTP will take a conservative approach with expected returns on investments, there will be an expectation when agreeing on annual performance that higher returns will be generated.</p>	Returns lower than expected.	Low	This would impact on Council's ability to fund services and infrastructure and would likely require an increase in rates.
<p>Government Policy Changes: It is assumed that the any future Government legislation changes will take into account the need for a stable working and statutory framework.</p> <p>The Government has made known its intention to reform the Resource Management Act 1991, to receive a report back from the Rules Reduction Taskforce, and to continue to seek ways of addressing housing affordability and social housing need. It has also introduced the Building (Earthquake-Prone Buildings) Amendment Bill which includes a requirement on Councils to complete seismic assessments and to earthquake strengthen specified buildings.</p> <p>Further changes to legislation impacting on local government may take place, but this is not known at this time. It is assumed that Government will work with Councils to ensure that any legislative changes are managed appropriately.</p>	Government policy shifts may result in new or amended legislation either requiring significant response and cost to administer by Council or result in changes to services delivered.	Medium	<p>Financial impact resulting from a need to respond to significant legislation changes would impact on rates or fees and charges.</p> <p>It is not possible to quantify the potential financial impact of any future legislative changes at this time.</p>
<p>Co-funding arrangements: It is assumed that for projects where other partners are contributing part of the funding, this funding will still be available.</p>	Partners will no longer be in a position to provide funding which will result in an increased level of input from Council, or the termination of the project	High	Viability of projects would be threatened and Council would need to consider its ongoing funding commitment.
<p>Treaty Settlements for Te Tau Ihu: It is assumed that Council obligations to work with Iwi as a result of Treaty settlements can be</p>	Establishing new ways of working with	Low	Financial impact of dedicating resources to meet

ATTACHMENT 4

Forecasting assumptions	Risk/ uncertainty	Impact	Comment/ mitigation
<p>met within existing resources.</p> <p>This may involve provision of training to current staff, increased emphasis on relevant experience in the recruitment of new staff, or a need in some instances to employ external assistance.</p>	Māori requires greater Council resource than anticipated.		Treaty commitments would impact on rates
<p>Emissions Trading Scheme: New climate change agreement to be concluded by end of 2015 to come into force by 2020 which will increase costs to Council for waste disposal to landfill and increase costs for the operation of the landfill site.</p>	Carbon pricing costs higher than expected or impact earlier.	Medium	Financial impact of responding to unexpected changes in carbon pricing would affect rates.
<p>Accounting Policy: Nelson City Council's accounting policy provides for its most significant asset classes (infrastructure assets and land, excluding land under roads) to be revalued with sufficient regularity that the carrying value does not differ materially from fair value. Infrastructure assets are revalued annually and land is reviewed annually and revalued at least every five years or if there is a material movement. For the purposes of this long-term plan, land revaluation is assumed to occur in years 2, 5, and 8. Council's investment property is revalued annually in accordance with generally accepted accounting practice.</p> <p>Revaluations have been based on the Business and Economic research Ltd (BERL) forecasts of price level change adjusters and revaluation movements are shown in the prospective Statement of Comprehensive Revenue and Expense.</p>	Actual revaluation results differ significantly from those forecast in this long term plan.	Medium	If the revaluations are different from those forecast it will affect fixed asset values and impact levels of depreciation expense and the rates funding requirement. Future Annual Plans and Long-term Plans will reflect the outcomes of actual revaluations.
<p>Growth in rating units.</p> <p>The estimated growth in the City's ratings units is 1% for each of the 10 years of the Long-term Plan.</p>	Growth in rating units is higher or lower than projected.	Low	The Council has used current property information from its valuation service provider (Quotable Value) to assess the level of growth in rating units, along with an assessment of year by year increases from recent years.

ATTACHMENT 4

Forecasting assumptions			Risk/ uncertainty	Impact	Comment/ mitigation
Year	Growth	Number of rating units			
2013/14		21,735			
2014/15	1%	21,952			
2015/16	1%	22,172			
2016/17	1%	22,394			
2017/18	1%	22,618			
2018/19	1%	22,844			
2019/20	1%	23,072			
2020/21	1%	23,303			
2021/22	1%	23,536			
2022/23	1%	23,771			
2023/24	1%	24,009			
2024/25	1%	24,249			
As a result, the 'real' average increase in rates funding required is reduced by an equivalent amount as there are a greater number of ratepayers across which the rates funding requirement will be allocated.					
Sources of funds for the future replacement of assets. It is assumed that funding for the replacement of existing assets will be obtained from the appropriate sources as detailed in Council's Revenue and Financing Policy.			That a particular funding source is unavailable.	Low	Depreciation is used to fund renewals and is funded mainly through rates and user charges. Should other sources of capital funding such as subsidies or development/financial contributions differ from levels forecast in a particular activity, Council is able to access borrowings through its central treasury function.