



significant assumptions

Significant Forecasting Assumptions

This section sets out the key assumptions made in preparing this Draft Ten Year Plan.

Assumptions

The following information is provided in accordance with the New Zealand Institute of Chartered Accountants New Zealand Financial Reporting Standing No. 42 (FRS42) Prospective Financial Statements.

CAUTIONARY NOTE

The Ten Year Plan contains prospective financial information. Actual results are likely to vary from the information presented and the variations may be material.

Significant Forecasting Assumptions and Risks

Schedule 10 (Section 11) of the Local Government Act 2002 contains provisions relating to 'significant forecasting assumptions'. The Act requires that Council identifies the significant forecasting assumptions and risks underlying the financial estimates. Where there is a high level of uncertainty, Council is required to state the reason for that level of uncertainty and provide an estimate of the potential effects on the financial assumptions.

Council has made a number of assumptions in preparing this Ten Year Plan. These assumptions are necessary as the planning term for the Ten Year Plan is 10 years and the assumptions ensure that all estimates and forecasts are made on the same basis.

Population Growth

The Council's Growth Model 2008 has informed the preparation of the Ten Year Plan, providing the following projections for the district.

- ▶ Usually resident population.
- ▶ Age and sex of usually resident population.

- ▶ Dwelling units.
- ▶ Floor area of non-residential activities.

Population in the Gisborne urban area is projected to increase by an average of 60 persons per year from 2006 until 2026 (33,600 - 34,810) and then remain fairly stable. In the rest of the district, the population is projected to decline by about 1,000 persons from 2006 to 2031 (12,340 - 11,340) and then remain fairly stable.

The most notable projected changes to the population by age include:

- ▶ increase in the population aged 65 years and over from 12% of the population in 2006 to 23% of the population in 2031
- ▶ decrease during the same period, in population aged less than 20 years from 34% to 28% of the population
- ▶ decrease in working population aged 20 to 64 from 54% to 49% of the population.

With household size decreasing, the number of households in the Gisborne urban area is projected to increase by around 100 households per year from 2006 to 2021, (an increase of 12.5%). An average annual growth of about nine households per year is projected for the rest of the district.

Total non-residential floor space in the district is projected to increase by only 4% from 2006 to 2046.

Development Contributions Funding

The income and expenditure estimates related to development contributions assume that growth occurs as projected and growth-related capital projects are implemented as planned.

Asset Management Plans

Forecast figures in the Ten Year Plan relating to the management and enhancement of significant assets have been based on Council's Asset Management Plans.

The following Asset Management Plans were prepared during 2008-2009.

- ▶ Land Transport and Parking.
- ▶ Reserves and Open Spaces.
- ▶ Stormwater.
- ▶ Water.
- ▶ Wastewater.
- ▶ Flood Control.
- ▶ Property Assets.

The Asset Management Plans have taken into account the growth model assumptions outlined above.

Activities and Service Delivery Options

It has been assumed that the existing activities, services and methods of delivery will continue except where this has been clearly stated in the Activity Summary section.

Similarly, significant assumptions that relate to specific activities are shown in the relevant part of the Activity Summary section.

Levels of Service

The financial information in this Draft Ten Year Plan has been prepared based on the levels of service as outlined in each Activity Summary. A level of service review was carried out during 2008. In some areas the Council is proposing an increase in the desired level of service and has increased funding to achieve this level of service. In other areas the increased level of service depends on securing external funding.

Interest

Interest rates on Council net debt is estimated to be between 6.5% and 7.12% over the 10-year term of the plan. Council covers its interest rate exposure using interest rate swaps. The interest rates are based on estimates of the 90-day bank bill rate and include bank margins and the effect of continuing use of interest rate swaps.

Renewability of Funding

The Council funds its balance sheet from a mixture of bank facilities and debentures. Bank facilities are reviewed every two years. Debentures on issues have a range of maturities out to 2015.

Additional funding will be required to complete major capital works in 2010-2011. The Draft Ten Year Plan assumes that the necessary level of funding will continue to be available through a mixture of bank facilities and debentures.

Inflation

The forecast financial information includes provision for inflation. Council has used forecasts of price level changes prepared by Business and Economic Research Limited (BERL) to calculate the inflation rate for each year of the Plan. The BERL rates were set in September 2008. An update is not available until the beginning of April 2009. Due to this delay updated BERL indices are not included in this Draft.

Income tax

Council has accumulated tax losses available to carry forward and offset against future taxable income. Given the level of accumulated losses and the expected tax liability during the life of the Plan, no income tax is expected to be paid.

Forecast Returns on Investments and Strategic Assets

Council maintains a range of commercial and strategic investments. Council has forecast the return for significant investments and business units. Council is currently reviewing all its investments and strategic assets to ensure it is receiving an adequate rate of return. Due to the level of uncertainty, the Plan does not include any significant strategic or investment asset disposals.

Income Levels

Income levels for building and resource consents and related activities (LIMs and PIMs) have been decreased in comparison to the 2008 actual revenue earned.

The lower levels are reflective of the current economy and the expected activity levels in the housing and property markets. If there were to be a further decline or change in activity levels in these areas, the actual income levels may vary significantly from budget.

Capital Projects

It is expected that on average, the costs budgeted for major capital projects will not vary significantly from the costs estimated. The capital project costs have been inflated based on the BERL inflation indices. There is a risk that costs rise more than the BERL inflation indices. The Council has a higher level of confidence regarding capital project costs in the short term, but less certainty in the longer term due to changes in the project scope, fluctuations in the economy and district growth trends.

External Funding

Included in the forecast financial statements are a number of operational and capital projects that are assumed to be either significantly or 100% funded by another agency or grant ie, there will be little or no rates impact to the Gisborne community.

There are also a number of major projects to be funded by a combination of Council and external funding. The funding sources of Council's proposed capital projects are disclosed in the Groups of Activities section of the Draft 2009-2019 Ten Year Plan. Council has \$303.5M capital projects proposed for the term of the Plan of which \$131.9M is budgeted to be funded from grants, subsidies or donations. NZTA subsidies for Land Transport and Parking capital projects are included. They contribute \$71.9M over the ten years. There is a risk that sources of funds for some capital projects may not eventuate. It is assumed that if the external funds budgeted are not available then the projects will not proceed.

Depreciation

All assets, excluding those listed below, are assumed to be replaced at the end of their useful life. The following assets are assumed not to be replaced at the end of their useful life.

- Tolaga Bay Wharf.
- Patutahi Hall.
- Landfills.

Council does not fund depreciation on these assets.

Council does not fund depreciation on landfills as it is assumed they will not be replaced at the end of their useful lives. Council operates a landfill near Ruatōria. Waste minimisation and waste strategy policies, both nationally and at district level, should give alternatives to the landfilling of solid waste in the future.

Council does not fully fund the depreciation on its roading assets in the Forecast Financial Statements. It is assumed that a set proportion of the Land Transport and Parking capital expenditure will continue to be funded through NZTA financial assistance subsidies. It is therefore considered appropriate to only collect rates revenue on the portion of roading depreciation funded from Council reserves.

Council does not fund depreciation on the Airport assets as it is assumed that the Council lease of the Airport assets and operations to Eastland Infrastructure Ltd will result in the assets being returned to Council at the end of the lease in the same condition as when the lease began on 1 April 2005.

Useful lives of assets are as recorded in Asset Management Plans or based upon professional advice. Refer to the Accounting Policies Depreciation note.

There is a risk that some assets may wear out and fail sooner, or later than calculated. There is no certainty that asset components will last exactly their design lives. However, replacement is budgeted at the expected end of useful life and earlier replacement will result in a loss on disposal of any residual value.

Earlier replacement may result in deferring other discretionary capital projects in order to remain within Council's borrowing limits set out in the Council Liability Management Policy.

Depreciation on Planned Assets Acquisitions

The depreciation rates used for planned asset acquisition are in line with current policies.

Resource Consents

All of Council's works projects require resource consents to be granted before works can commence. It has been assumed that resource consents can be obtained for all capital works, and that obtaining those resource consents will not significantly impact on the timing of capital works shown in the Draft Ten Year Plan.

It is also assumed that the currency and conditions of existing resource consents held by Council will not be altered significantly during the term of the Draft Ten Year Plan. The most significant resource consents currently held by Council are for:

- ▶ Waiapu Landfill
- ▶ transfer stations
- ▶ existing wastewater treatment (Marine Outfall into Poverty Bay.

The Council has lodged an application for a variation to a suite of resource consents held in relation to the proposed upgrade and renewal of the wastewater treatment project. These are currently going through the resource consent process. For the purpose of this Plan it is assumed that the consents for this will be granted.

Revaluation of Assets

The forecast financial information includes an annual estimate to reflect the change in asset valuations and depreciation. The effect of the revaluations is a best estimate based on historical asset values, forecast capital expenditure, the BERL inflation indices and recent revaluation information. The most recent revaluation of Council's assets was at 30 June 2008. It is assumed revaluations will result in an increase in the asset values, revaluation reserves and the depreciation expense. It is assumed the revaluations will occur annually.

5 % Efficiency Gain Target

Council has identified the need to reduce the rates demand by making efficiency gains. These gains will be made through improved systems and management within the organisation. The 2009-10 target for these gains is a 5% saving based on all non-committed expenditure. Non-committed expenditure covers all costs not already covered by an agreed contract price.

The proposed efficiency gains have been set at a level that will not adversely impact on the levels of service for each of the Council's groups of activities.

Emissions Trading Scheme

While acknowledging the possibility of the district being seen as a carbon sink for the nation, the Council is cautious about the possible negative impacts. In an extreme case afforestation could mean that other land use options are foregone and there is the potential for limited local economic benefit.