

Long Term Plan 2012-22 - Assumptions and Data

Introduction	High Risk	Funding from other sources
<p>In preparing our budgets and planning for our work over the next 10 years, we have to make a number of assumptions about things that will happen over the coming years. While these things may not happen exactly as we predict, we need to plan our costs and activities based on the most likely scenario. The actual events may differ substantially from these assumptions. If this occurs the result may be a significant change in costs and our work plan. The following pages give you a summary of the assumptions we have made when preparing this LTP. It also identifies the risks that may affect the Council. Where this risk is high, the financial effect and how we intend to mitigate the risk has been provided. There are other assumptions which have been made about the expected lives and future replacement of significant assets. Further information on these assumptions can be found in the 'Our Costs in Detail' chapter of the LTP 2012-22.</p>	<p>Legislative demands on Council There are changes to legislation which have not been finalised, but will affect our work programme. We have had to make assumptions around the likely outcome of these changes, where possible. Risk: The risk is that there will be major unexpected changes to the legislation that will cause significant changes to how we operate, what we do, and who pays for things. Changes could have a significant financial impact on the way we operate. Mitigating the risk: We have set our work programme to take into account the expected outcome of legislative changes where possible.</p> <p>Availability of contractors The assumption is that we will be able to find skilled contractors to undertaken the work we require, to the agreed standards, deadlines and cost. Risk: The risk is that there will be a shortage of contractors, or that contractors will not deliver to the agreed standards and specification within the agreed time. If the risk occurs, it could result in an increase in the price of the project and may impact on the completion of projects and therefore levels of service. Mitigating the risk: We have a procurement manual which ensures we have robust contracts. Our contracts outline what we expect to receive from our contractors. If the work is not completed to the agreed standards and specifications then we have legal rights.</p>	<p>Funding from other sources There are a number of projects signalled in this LTP as being funded from other organisations. It is assumed that the projects will meet the criteria for the relevant funding scheme. Risk: Changes to the criteria or level of funding available may change, resulting in less or no money being available for our projects. If this is the case, the relevant project will not be progressed or will need to be adjusted to meet the Council's ability to pay. This may impact on future levels of service. This risk has been highlighted as a result of the recent events in Christchurch, where it is likely that Government and philanthropic funding will be redirected. Mitigating the risk: We will continue to seek subsidies for projects where available. However, where funding becomes unavailable, we will reassess the viability of the project before progressing.</p> <p>Sale of assets Money from selling assets has been included as a source of funds. This money will be used to pay-off debt as the funds become available. Risk: The money from these sales is not as much as hoped. This would result in an increase in rates to cover the cost of these loans. It may also impact on the Financial Strategy and Treasury Policy limits. Mitigating the risk: The expected income from the sale of assets is based on a prudent and realistic sale price. More information about this proposal is available in the Financial Strategy.</p>

<p>Natural hazards Our District is at risk of a range of natural hazards such as earthquakes, flooding, debris flows, slips, tornado, fire and volcanic activity. Risk: That there will be a disaster event needing emergency works that we cannot afford to fund within our current budget. Some emergency works are covered by the Local Authority Protection Programme Disaster Fund Trust (LAPP), but there is also a risk that the LAPP fund is exhausted and the Council may have to pay for all emergency works. The potential effect of a disaster on the Council's financial position depends on the scale, duration and location of the event. Mitigating the risk: While we are a member LAPP we have also decided to build up a contingency fund to pay for storm damage to roading. We are putting \$275,000 per year into a special fund (excluding subsidies). We are also putting aside general funds to help cover the costs of disaster events. This will include \$150,000 for years four and five, \$200,000 for years six to eight and \$300,000 for years nine and 10. Where these reserve funds are not likely to cover the full cost of disaster events it may result in unbudgeted spending or reprioritisation of work programmes within the affected activities. Alongside us, Central Government also has a role in disaster recovery and restoration works after natural disasters have happened.</p>	<p>Medium risk</p> <p>Growth forecasting Population growth across our District is expected to reflect the medium population projection by Statistics NZ over the next 10 years. See table one. Risk: Where actual growth differs substantially from the assumption, growth related projects and work programmes will need to be adjusted.</p> <p>Potential social changes We acknowledge there is increasing socio-economic vulnerability, particularly in rural parts of our District. Risk: Where social change differs substantially from expectations the projects and work programmes may need to be adjusted.</p> <p>Potential climate change impacts Climate change is likely to impact on various activities of the Council. Risk: Our District may experience effects of climate change in the short term.</p> <p>Rating base The number of properties from which we receive rates is expected to increase by approximately 1% annually. Risk: The rateable properties will not increase as expected.</p> <p>Borrowing and expected interest rates We have a number of loans for different projects, which have varying interest rate commitments. See table two. Risk: In the future, interest rates may be higher than forecast.</p>	<p>Renewability or otherwise of external funding Our loans are due to mature at different times and we may need to raise more loans for new projects. We have made assumptions that we will be able to negotiate favourable borrowing terms. Risk: We will be unable to get new loans with reasonable terms to pay for approved projects or to repay old loans that are maturing.</p> <p>Cost factors We use best estimates to predict what things will cost in the future, including inflation expectations. See table three. Risk: The actual price of inputs and outputs will not increase at the rate assumed.</p> <p>Revaluation of assets From time to time we revalue our assets to understand how much they are worth. Through our planning, we make assumptions about how much we think the assets will be worth when they are revalued. See table four. Risk: There may be a big difference between how much we thought the asset would be worth and how much it is actually revalued at. This may be due to better information about the asset being available.</p> <p>Project Management The LTP assumes that projects will be run within cost, quality and the timeframes specified. Risk: That projects will be delayed due to things we can't predict or have cost or quality changes from that planned.</p>
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<p>Environmental consent requirements It is assumed that the majority of consent requirements will remain the same. Risk: Renewed consents could include tougher environmental conditions than expected, or could fail to be granted.</p> <p>Funding growth related development Infrastructure needed for growth related development will be paid for by development contributions and financial contributions. Risk: Development contributions do not cover the cost of growth related infrastructure because there is less growth than expected.</p> <p>Service delivery options We will continue to deliver our services to the community in the same way. Risk: We will not be able to take advantage of more efficient and effective methods of delivering services because we are unable to exit the current method of service delivery.</p> <p>Preliminary cost estimates Costs listed for some projects are initial estimates based on information available at the time. Risk: Costs will be significantly different from those estimated.</p> <p>NZTA subsidies We get subsidies from the NZ Transport Agency for the operation and upkeep of the local road network in the District. An assumption is made on the level of financial assistance that we will get. See table five.</p>	<p>Risk: That the Financial Assistance Rate (FAR) will be adjusted downward or that policy priorities change and affect the availability of some subsidies.</p> <p>Creation and realisation of investments, reserves and assets We will continue to own investments and reserves in line with our current practice, unless stated in this LTP. The capital expenditure programme in this LTP represents new assets we are going to create. Risk: Should we sell any assets to lower rates, the sale would only have a short term positive impact on rates.</p> <p>Estimates of commitments and contingencies To allow for variations between our expected cost of a project, and the actual cost of a project, we allow for a contingency in our budgets. This may range between 10% for fully scoped projects up to 30% for projects in concept or preliminary design. Risk: Should any project increase in costs significantly beyond our estimates, it may have an impact on the rates requirement.</p> <p>Business continuity planning It is assumed we are able to continue operating to deliver essential services to the community in the event of a disaster. Risk: If the Council's ability to function is severely disrupted in the event of a disaster affecting the District, we will be unable to provide the essential services.</p>	<p style="text-align: center;">Low Risk</p> <p>Overhead allocations The way we work out overheads and the costs associated with each Council activity will stay the same during the LTP. Risk: The way we work out overheads will not stay the same during the time of the LTP, putting extra costs on specific activities. This could have an impact on our funding structure.</p> <p>Council structure and elections It is assumed that there will be no change in the Council structure, including the mayor and 10 Councillors. Risk: There could be an unexpected change in the Council structure during the life of the LTP.</p>
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Additional Information

1. Medium Projected Population Growth for Each Census Area Unit

Area	2011	2016	2021	2026	2031
Whakatane District	34700	34600	34300	33800	32900

2. Expected Interest Rate

Years	Expected Interest Rate (%)
2012/13	5.45
2013/14	5.88
2014/15	6.19
2015/16	6.61
2016/17	6.72
2017/18	7.05
2018/19	7.01
2019/20	7.16
2020/21	7.51
2021/22	7.52

3. Inflation - BERL

BERL adjusters	Road	Property	Water	Energy	Staff	Other	Earth-moving	Pipelines	Private Sector wages
Financial year	%	%	%	%	%	%	%	%	%
11/12	4.3	3.9	4.5	5.5	2.6	3.6	5.5	5.7	2.6
12/13	3.8	3.0	4.2	4.8	2.5	2.4	4.1	5.2	2.4
13/14	3.1	2.9	3.9	4.7	2.4	3.2	3.4	4.4	2.3
14/15	3.5	2.9	3.5	4.7	2.4	3.2	2.9	3.7	2.3
15/16	3.1	3.0	3.7	5.0	2.6	3.4	3.0	3.8	2.4
16/17	3.0	3.1	3.8	5.1	2.6	3.5	3.3	4.2	2.5
17/18	3.2	2.8	3.5	4.6	2.4	3.4	3.5	4.5	2.2
18/19	3.5	2.8	3.5	4.5	2.3	3.3	3.8	4.8	2.2
19/20	3.7	3.0	3.8	5.0	2.6	3.3	4.1	5.2	2.4
20/21	3.4	3.3	4.1	5.4	2.7	3.6	4.3	5.5	2.6
21/22	3.5	3.3	4.1	5.4	2.7	3.5	4.4	5.7	2.6

4. Asset Revaluations

Asset	Frequency	Next Valuation Date
Investment property	Annually	30/06/2012
Forestry	Annually	30/06/2012
Land and Building	Three yearly	1/07/2013
Museum assets	Three yearly	1/07/2013
Library assets	Three yearly	1/07/2013
Harbour assets	Three yearly	1/07/2013
Water and sewerage	Annually	1/07/2012
Roading	Three yearly	1/07/2013
Parks	Three yearly	1/07/2013
All assets for insurance valuation only	Two yearly	April 2013

5. Roothing Subsidies

Activity	NZTA Subsidy			
	2011/12	2012/13	2013/14	2014/15
OPEX				
Local Road Maintenance	45%	47%	48%	49%
Emergency works	45+%	47+%	48+%	49+%
Special Purpose Road Maintenance	100%	100%	100%	100%
Non Financially Assisted Road Maintenance	0%	0%	0%	0%
Studies	75%	57%	58%	59%
Road safety/community programmes	75%	64%	64%	64%
Railway Crossing Maintenance	100%	100%	100%	100%
CAPEX RENEWALS				
Local Road Renewals	45%	47%	48%	49%
Special Purpose Road Renewals	100%	100%	100%	100%
Non Financially Assisted Road Renewals	0%	0%	0%	0%
CAPEX IMPROVEMENTS				
Local Road Improvements	55%	57%	58%	59%
Special Purpose Road Improvements	75%	75%	75%	75%
Non Financially Assisted Road Improvements	0%	0%	0%	0%