Significant forecasting assumptions

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Christchurch City Council

Significant Forecasting Assumptions LTCCP 2006 to 2016

Schedule 10 (Section 11) of the Local Government Act 2002 requires that Council identify 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 of the assumptions. This section is designed to identify the assumptions made and explain the risks associated with those assumptions. It is divided into two categories: General and Financial.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Population. Planning for activities, and thus the likely cost of providing those activities, considers that the population of Christchurch will increase at the medium growth rate projected by the Department of Statistics. The Department is currently predicting the population of Christchurch to reach 388,800 by 2026, an increase of 16% over 2001.	Population growth is higher than projected, and Council will need to provide additional unplanned services and infrastructure. Population growth is lower than projected, and Council will be required to support excess levels of infrastructure and service delivery.	Low Low	Population projections are based upon a standard set of demographic assumptions and are not expected to change quickly.
Rating base. The capital value of Christchurch on 1 July 2006 is expected to be approximately $46.048 billion, up $750 million from 1 year ago and generating an additional $3.0 million in rate revenue. The projected percentage increase in rates for years beginning on or after 1 July 2006 include the assumption that growth in the capital value of the City will generate an additional $3 million in rate revenue per annum. This is a conservative figure.	The rating base does not grow at the rate projected.	Moderate	Rate revenue would not be as high as projected. This would be partially offset by the lower demand for services.

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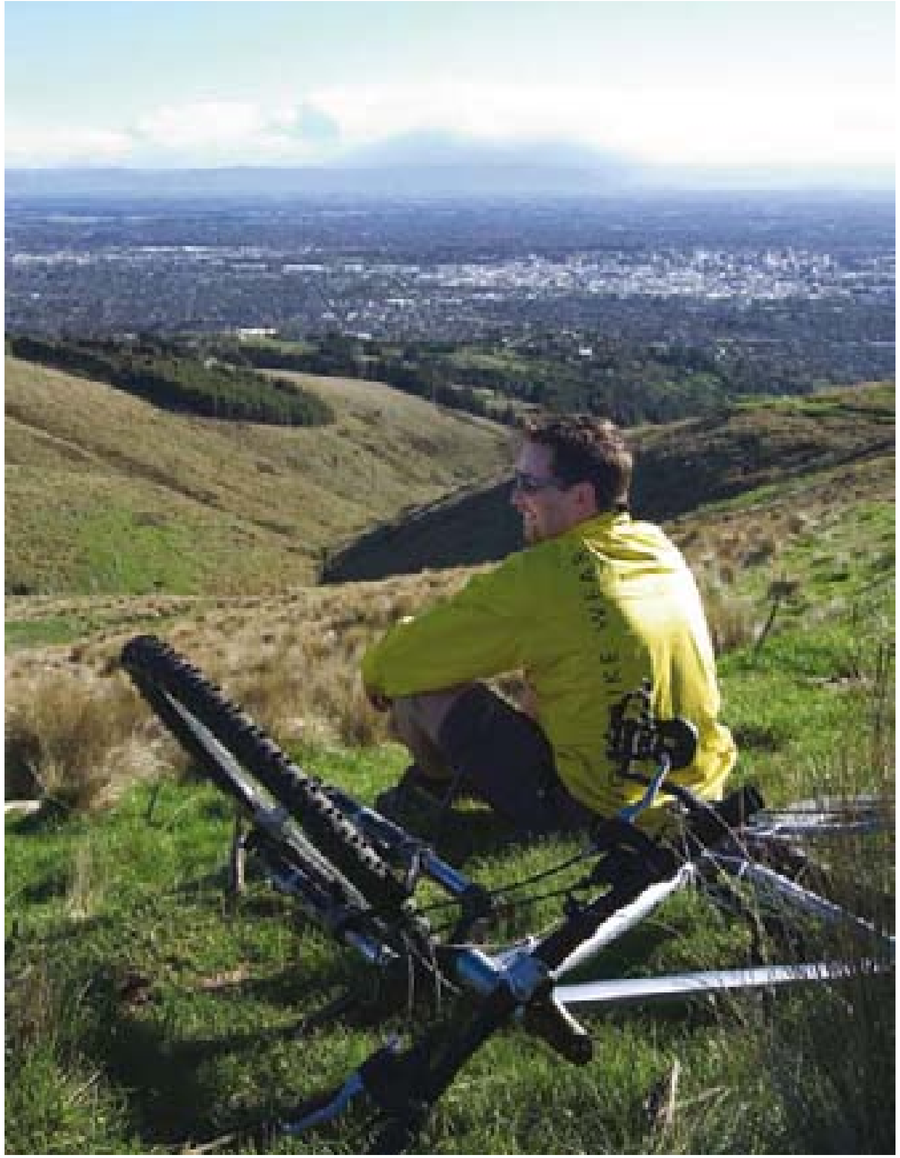

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Council policy. There will be no significant changes to Council policy as summarised in this plan.	New legislation is enacted that requires a significant policy response from Council.	Low	Dealing with changes in legislation is part of normal Council operations.
	Election of a new Council with different objectives from the current Council.	Moderate	Any significant change to Council policy would be assessed in terms of impact upon Council's financial position.
Resource Consents. Conditions of resource consents held by Council will not be significantly altered.	That conditions required to obtain/maintain the consents will change, resulting in higher costs than projected, and these costs will not be covered by planned funding.	Moderate	Advance warning of likely changes is anticipated. The financial impact of failing to obtain/ renew resource consents cannot be quantified.

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Land Transport New Zealand subsidies. Requirements and specifications for the performance of subsidised work will not alter to the extent they impact adversely on operating costs.	Changes in subsidy rate and variation in criteria for inclusion in subsidised works programme.	Low	Changes to the funding priorities of Land Transport New Zealand are outside Council control. The maximum financial impact would be elimination of the subsidy, estimated at $15 million per annum.

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Financial

Assumption	Risk	Level of Uncertainty	Impact
Inflation. The price level changes projected will occur. (Details of the inflation adjustments may be found on page 199.)	Inflation will be higher or lower than anticipated.	Moderate	Inflation is affected by external economic factors.
	Inflation on costs will not be offset by inflation on revenues.	Moderate	Council's costs will increase unless efficiency gains can be made.
Borrowing Costs. Interest on Term Debt is calculated at 6.85% per annum. Interest on the Capital Endowment Fund is estimated at 7% for years 1-2 and 6.75% years 3-10.	Interest rates will vary from those projected.	Moderate	Rates used are based on detailed analysis. If actual interest rates are higher than the assumed rate, this cost would be rated for or future borrowing requirements adjusted.

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Assumption	Risk	Level of Uncertainty	Impact
Return on investments. Interest on Investments is calculated at 6.8% for years 1-2 and 6.7% for years 3-10. Interest on the Capital Endowment Fund is estimated at 7% for years 1-2 and 6.75% for years 3-10.	Interest rates will vary from those projected.	Moderate	Rates used are based on detailed analysis. If actual interest rates are lower than the assumed rate, expenditure priorities would be re-evaluated or alternative funding mechanisms utilised.
CCTO income. CCHL will continue to deliver dividend income at the current level.	CCHL will deliver lower than projected income and Council will need to source alternate funding.	Low	CCTO's are managed by the Statement of Intent and biannual reporting process. Returns are expected to continue at the current level.
Asset revaluation. The impact of asset revaluations on carrying values and depreciation will occur as projected.	Revaluations will materially differ from those projected, thus changing projected carrying values of the assets and depreciation expense.	Moderate	Variation in values is expected to be low unless valuation methodology changes.

Assumption	Risk	Level of Uncertainty	Impact
Asset life. Useful life of assets is as recorded in asset management plans or based upon professional advice. (The Accounting Policies detail the useful lives by asset class).	Assets wear out earlier than estimated or asset lives are changed due to revisions of AMP's or new advice.	Moderate	Capital could be brought forward in event of early expiration of assets, but depreciation expense and financing costs would increase.
Sources of funds for replacing significant assets. The sources of funds will occur as projected. (The Revenue and Funding Policy details the funding sources.)	Funding does not occur as projected.	Low	Funding sources are stable.
Contract Rates. Re-tendering of major contracts will not result in cost increases other than those comparable with the rate of inflation.	There is a significant variation in price from re-tendering contracts.	Moderate	Council would review the amount of work planned and undertaken.
Capital Works. Capital works projects will occur as projected.	Actual costs will vary from estimates, due to higher input prices or delivery delays, resulting in budget shortfalls.	Moderate	Council is confident in the planning work undertaken on capital projects, but recognises external economic factors may impact upon the costs and delivery timeframes for capital works.

Significant forecasting assumptions

Assumption	Risk	Level of Uncertainty	Impact
Cash Position at 30 June 2006. A special dividend of $17.9 million will be received from CCHL.	The dividend amount will vary from projections.	Low	The cash balance will reduce slightly, with less interest revenue received, and borrowing will need to be brought forward.
Current Civic Offices on Tuam Street will be sold to a council controlled trading organisation prior to 30 June 2006 for $11.0 million. Council will enter into a lease with the CCTO for the current building, until a new building is completed (planned for 2010/11).	The sale will not occur as planned.	Low	The cash balance will reduce slightly, with less interest revenue received, and borrowing will need to be brought forward.

The adjustors used for each year are as follows:

	2007 /08	2008 /09	2009 /10	2010 /11	2011 /12	2012 /13	2013 /14	2014 /15	2015 /16
Expenditure	1.029	1.0274	1.0254	1.0234	1.0213	1.0197	1.0177	1.0151	1.0151
Cumulative Expenditure	1.029	1.0572	1.0840	1.1094	1.1330	1.1554	1.1758	1.1936	1.2116
Revenue (excl rates & dividends)	1.032	1.030	1.0276	1.0256	1.0236	1.0212	1.0192	1.0167	1.0167
Cumulative Revenue	1.032	1.0630	1.0923	1.1203	1.1467	1.1710	1.1935	1.2134	1.2337
Capital Expenditure	1.0365	1.0342	1.0315	1.0293	1.0270	1.0243	1.0220	1.0194	1.0194
Cumulative CAPEX	1.0365	1.0719	1.1057	1.1381	1.1688	1.1972	1.2236	1.2473	1.2715