Significant Forecasting Assumptions

In preparing this draft Long Term Plan it was necessary for Council to make a number of assumptions about the future. The following tables identify those forecasting assumptions which are significant in that if actual future events differ from the assumptions, it will result in material variances to this Plan. The table also identifies the risks that underlie those assumptions, the reason for that risk, and an estimate of the potential impact on the Plan if the assumption is not realised.

A number of assumptions have such a high level of uncertainty the financial impact of a change in the assumption is not able to be quantified. In these situations a description of the impact has been provided.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Capital Programme and infrastructure assets			
Capital Works, including the SCIRT programme. Programmes and projects are delivered within budget and on time.	Actual costs will vary from estimates, due to higher input prices and/or delivery delays, resulting in budget shortfalls. These are partially offset by the delay in borrowing. Some projects which are to repair earthquake damage are still to be finally costed. Depending on the asset a delay in the rebuild capital works programme could result in higher reactive maintenance and operating costs for the essential services.	High	At the time this Plan was adopted Council, insurers, and central Government were still refining estimates of the cost to repair earthquake related asset damage and the timing of these repairs. Final capital works and ongoing related operating impact estimates will vary from this Plan. Any additional financial subsidies would have a positive impact for rate payers by reducing the amount of new borrowing required. There are also market capacity issues in delivering the volume of work planned. Should the level of capital works be unable to be completed as planned in any year of the long term plan this will result in projects being carried forward. The implications of this are: • projects may cost more than planned due to inflation. • less funds will need to be borrowed in the short term. Delaying new borrowing will impact on the timing of financing costs. For Anchor projects we have assumed that the Council's contribution is its maximum contribution (in line with the Cost Share Agreement). However, for some of the assets, in particular the Stadium, delays in construction could result either in Council's contribution increasing due to inflation and other cost increases,or the project being reduced in scope to meet the budget.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Sources of funds for replacing assets. The sources of funds will occur as projected.	Funding does not occur as projected.	Moderate	Council, insurers, and Central Government are still refining cost estimates of earthquake related asset damage and the associated funding sources. The risk is that Council assumes a higher share of the cost. This will be funded by additional borrowing provided the Council has sufficient capacity to borrow the additional funds. In the event that the Council cannot borrow additional funds it would need to consider other sources of funding or reductions in the planned capital programme or levels of service. The impact to ratepayers of every $10 million of additional borrowing for capital works is a 0.25% increase to rates spread over two years. This increase accounts for the interest cost and repayment of the borrowing.
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)	Damage to assets as a result of the earthquake is such that their useful lives are shortened significantly.	Moderate	Work has yet been completed to determine the condition of assets in the lesser affected areas. Earlier replacement would put more pressure on the Council's capital programme, leading to higher depreciation expense and financing costs. [This is also discussed in the Infrastructure Strategy.]
Carrying value of assets. The opening balance sheet reflects the correct asset values. The carrying value of assets are revalued on a regular basis	Some assets are not correctly recorded at their revalued amounts. Asset revaluations will change projected carrying values of the assets and depreciation expense.	High	An impairment provision has been recognised since June 2012. At 30 June 2014 the provision totalled $694 million. The provision represents the best estimate of the value of assets to be replaced or repaired. An adjustment has been made for the expected increase in value of assets as a result of their first post earthquake revaluation. With land and buildings, wastewater and roading being revalued at 30 June 2015 there is uncertainty as to whether the estimated increase in assets will be in line with the revaluations. Differences in carrying value will affect levels of depreciation.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Insurance Recoveries. The Council has submitted claims or indicative claims for all material assets and is continuing to negotiate with the insurers to settle the claims. The cash settlement of the recoveries is expected in 2016, 2017 and 2018.	That the Council is: • unable to settle its insurance claims within the timeframe expected; and • receives less than it believes it is entitled to under its insurance contracts.	High	The nature of insurance settlement negotiations are such that there is a significant level of uncertainty over the amount that it will receive. In the event that the cash settlement realises less than has been planned the Council will need to fund the shortfall. The options for funding the shortfall are: • borrowing further funds subject to the Council having the capacity to borrow more funds. • considering other funding sources including rates and asset sales. • making changes to the planned capital programme or levels of service.
Inflation. Growth and Population			
Inflation. The price level changes projected will occur. In developing this plan Council based its inflation projections on information provided by Business Economic Research Limited to all local authorities with an adjustment in early years for the rebuild factor. Different weighted average inflation figures for capital and operational items are used due to the potential impact of the rebuild on capital costs. Inflation adjustments used are: Capital Opex 2016/17 2.3% 2.3% 2017/19 2.5% 2.4% 2019/20 2.6% 2.6% 2020/21 2.7% 2.7% 2021/22 2.9% 2.9% 2022/23 3.0% 3.0% 2023/24 3.2% 3.1% 2024/25 3.4% 3.3%	Inflation will be higher or lower than anticipated Inflation on costs will not be offset by inflation on revenues.	Moderate Moderate	Any inflationary increase in Council's costs that is not offset by efficiency gains or revenue increases is likely to impact on rates.

The following BERL rates were used in determining the weighted average for capital expenditure:

	Weighting	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Roads	25%	0.4	1.2	1.4	2.2	2.4	2.6	2.8	2.9	3.1	3.3
Earthmoving	10%	1.7	1.8	2.6	2.4	2.0	2.1	2.3	2.4	2.5	2.9
Pipelines	44%	1.8	2.1	2.5	2.6	2.8	2.9	3.1	3.2	3.4	3.5
Other	22%	1.5	2.3	2.5	2.6	2.7	2.9	3.0	3.1	3.3	3.4
	100%										

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Economic Environment. At the time of finalising this Plan the performance of the New Zealand economy is driven by the Auckland expansion and the Canterbury rebuild. Council has prepared this Plan on the basis that the current predictions about the economy and speed of recovery will prove correct.	The current rebuild and recovery slows or the economy moves into a new recession.	Moderate	While the New Zealand economy is currently in a strong position the availability and cost of resources including labour and materials could constrain the speed of the recovery. Building costs have increased due to the demand on resources and may impact rebuild and non-earthquake related projects, while accommodation issues along with the labour demand by Auckland could affect the ability of the region to secure and retain the temporary workforce required for the rebuild. Any slow down in recovery will impact on the rating base. Current housing demand will peak and may correct itself through value adjustment downwards – possibly over the next 3-5 years.
Growth and land use change on development contributions. Council collects development contributions from property developers to fund the capital costs of growth in the City's infrastructure. The amount collected is dependent on the forecast growth in the number of residential, commercial, industrial, and other properties. This forecast is based on Council's Growth Model adjusted for expected post-earthquake activity.	If growth in the number of properties varies considerably from forecasts there is a possibility that revenue collected from development contributions will be too much or too little to fund Council's capital programme. If the timing of growth differs significantly from forecast this will impact on Council's cash flows and may necessitate changes to planned borrowing.	High	The timing of growth, and its impact on Council's development contributions revenue, can impact on the borrowing and interest expense assumptions in this Plan.
The location and timing of future residential and business development.	The location and timing of development is determined by a number of factors outside the control of the council such as market factors.	High	This may mean that growth could occur in different areas or at different rates than projected. This would have an impact on planned infrastructure provision by either requiring projects to be brought forward or delayed.
Population. Planning for activities, and thus the likely cost of providing those activities is on the assumption that the population of Christchurch will increase at the rate forecast by Council's growth model. That model predicts the population of Christchurch to reach 383,700 by 2025, an increase of 6% over 2015 with the number of households increasing 13% over the same period.	That population growth is higher than projected, and Council will need to provide additional unplanned services and infrastructure. That population growth is lower than projected, and the Council will be required to support excess levels of infrastructure and service delivery.	Moderate Moderate	Population projections are based upon a standard set of demographic assumptions. However, the impact of the earthquake and the speed of the rebuild could alter these assumptions. Therefore the level of risk is moderate and could impact the cost of providing activities Net increases in inward migration fuelled by a rebuild are difficult to predict as is their sustainability in the medium term.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Rating Base The capital value of Christchurch (post revaluation) is expected to increase across the years of the LTP. The projected percentage increase in rates includes the assumption that growth in the capital value of the city will have generated the additional rates revenue as outlined in table below, Year Growth % / $m 2015 1.8% 6.3 2016 1.9% 6.9 2017 2.1% 7.6 2018 0.7% 2.5 2019 0.7% 2.7 2020 0.7% 2.6 2021 0.8% 2.9 2022 0.9% 3.6 2023 1.1% 4.2 2024 0.9% 3.3 The growth in the early years is mainly due to the rebuild of the city following the 2011 earthquakes and returns to more moderate levels in the medium and later years of the plan.	The rating base grows at a rate different to that projected.	Moderate	Variances between the forecast and actual growth in the rating base are likely to cause changes to the total rates revenue collected.
Aging population. A quarter of the population of Christchurch is expected to be over 65 years by 2041, compared with 15% at present. The number of people over 80 years of age is expected to double in the next 20 years	If the rate of aging is different then the range and types of services that have factored in the needs of older persons may need to change.	Low	Age projections are provided by Statistics New Zealand on a nation-wide basis. The projections for people who will be in post retirement age groups is determined by the current population structure which does not change significantly, especially in the ages from 45 to 65 years, which will be the retirement age group in the next 20 years. The impact on Christchurch may be different from the rest of New Zealand due to the effect of the rebuild. There is the potential for a younger demographic to remain in the City at the completion of the rebuild projects.
Impact of policies and external factors			
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 or business change from Council or, CERA uses its statutory powers such that a change is required to Council policy.	Low	Dealing with changes in legislation is part of normal Council operations.
New Zealand Transport Agency 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 New Zealand Transport Agency are outside Council control. The maximum financial impact would be elimination of the subsidy, estimated at $40 million per annum.

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Resource Consents. Conditions of resource consents held by Council will not be significantly altered.	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.
Legislative change. Council will continue to operate within the same general legislative environment, and with the same authority, as it does at the time this Plan is published.	Should the local government legislative environment change, the activities and services the Council plans to provide over the period of this Plan could change.	Moderate	The Government has several taskforces reviewing different aspects of local government, with some legislative change having occurred and further is expected to occur within the period of this Plan. At the time of preparing this Plan the Council is unable to determine how potential legislative change might impact its operations or quantify the potential financial impact.
Potential climate change impacts. In its Climate Smart Strategy, the Council follows New Zealand Government advice about anticipated changes for Christchurch and is meeting legal obligations placed on the Council to consider the impacts of climate change. Following this advice, our community within the next 90 years must prepare for: a. 100 centimetre rise in sea-level; b. a temperature increase of 2 degrees Celsius; and c. changes in rainfall and extreme weather events.	The timing or severity of any climate change may vary.	Low	If the effect of climate change has been underestimated the financial effect will be significant over the longer term but not within the period of this Plan. Similarly, should the effect have been overestimated there is little impact on the period of this Plan.
Borrowing Related			
Credit Rating. The current rating is maintained.	Council's credit rating with Standard and Poor's is downgraded.	Moderate	There is still some uncertainty around the final rebuild costs. A downgrade would increase costs of borrowing. If the Council falls one notch from its current credit rating (i.e. from A to A-) the cost of new borrowing will increase between 0.1 and 0.2 per cent per annum for the life of the borrowing. Increases in interest rates flow through to higher debt servicing costs and higher rates funding requirements. The total cost increase each year will depend on how much debt has been borrowed or refinanced since the rating downgrade. The additional cost is estimated to be between $0.5 million to $3 million per annum.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Borrowing Costs. Net cost of borrowing (i.e. including current and projected debt) is projected to be: 5.8% for financial years 2016 & 2017 5.9% for financial year 2018 5.7% for financial years 2019 – 2021 inclusive, and 5.8% for financial years 2022 – 2025 inclusive These include market rates, (inclusive of credit margin) for new borrowing of; 6.3% for 2016, 6.6% for 2017, 6.5% for 2018, 6.0% thereafter	Interest rates will vary from those projected.	Moderate	Projections are based on conservative assumptions about future market interest rates. The cost of projected debt is hedged to minimise exposure to market rate fluctuations. Council manages interest rate exposure in accordance with its Liability Management Policy, and in line with advice from an independent external advisor.
Securing External Funding. New, or renewal of existing borrowings on acceptable terms can be achieved.	That new borrowings cannot be accessed to refinance existing debt or fund future capital requirements.	Low	The Council minimises its liquidity risk by maintaining a mix of current and non-current borrowings in accordance with its Liability Management Policy.
Philanthropic Funding. Philanthropic funding will be able to be secured to assist with the funding for anchor projects.	That philanthropic funding cannot be secured	Moderate	The Crown Cost Share Agreement provides for $10 million of philanthropic funding for the Central Library project. If such funding cannot be secured additional funding may be required by the Council in order to deliver the project. The options available to Council to replace this funding include: • Additional borrowing if sufficient capacity within limits exists. • Sale of investments or assets; • Changes to levels of service or the capital programme.
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 they guarantee obligations of other participating local authorities to the LGFA, in the event of default.	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 to each guarantor's relative rates income.	Low	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.
Opening Debt: The opening debt of $1,480 million is made up of; • $154 million of equity investments, mainly in CCTOs (Vbase $130 million), • $285 million of money borrowed for on-lending to CCTOs, (in accordance with the Council's Liability Management Policy), • $645 million of earthquake related borrowings. • $294 million of borrowing for capital works. • $102 million finance lease (Civic Building).	Actual opening debt differs from forecast.	Low	Council's debt requirements are well understood and closely managed. It is unlikely that opening debt will be significantly different to forecast.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Investment related			
Return on investments. Interest on general funds invested is calculated at 4.5%, other than 2016/18 - 5%. The return on the Capital Endowment Fund is calculated at 5% for 2015/16, and 5.4% thereafter.	Interest rates will vary from those projected.	Moderate	Rates used are based on expert advice. If actual interest rates differ from those anticipated the impact will largely fall on the Capital Endowment Fund.
CCTO income. CCHL will deliver dividend income at the levels forecast in this Plan.	CCHL will deliver a lower than projected dividend and Council will need to source alternate funding. Our estimate of the reduced dividend stream may be incorrect as a result of the eventual selection of CCTOs to be either sold or sold down. Alternatively the investment by strategic partners in CCHL's investments could result in higher than projected dividends.	Low	CCTOs are monitored by their Statements of Intent and a quarterly reporting process. Returns are expected to continue as forecast in this Plan. Should additional dividend income be received the level of borrowing forecast in this plan will be reduced.
CCHL capital release The Council will receive $750 million as a result of it selling down some of its investments.	That $750 million cannot be released from the divestiture within the planned time frame. A change in tax legislation or policy changes the tax treatment by Council of the dividends.	High Moderate	CCHL has been asked to provide the Council with a maximum of $750 million through divesting some of its investments. In undertaking this exercise Council will take expert advice on the availability of a market, and the method of sale. This plan assumes that the $750 million released by CCHL will be paid to Council by way of dividends with $549.3 million being received in 2015/16 and $200.9 million in 2016/17). The timing of receipt could change depending on the availability of a market and the methods of sale selected which would impact Council's total debt and the Debt to Revenue ratio. A change in tax legislation or policy could result in the funds being returned to Council in a different manner or requiring the development of an alternative approach to maximising the value to Council from the $750 million release. A tax cost of approximately $65 million would be the result, if no alternative was possible.
Tax planning. The Council (parent) will be operating at a tax loss for the period covered by this Plan due to the availability of tax deductions on some Council expenditure. This allows the Council's profit-making subsidiaries to make payments (know as subvention payments) to Council instead of tax payments. It has been assumed that sufficient profits will be made within the wider group to ensure that subvention receipts are available.	Subvention payments will be lower than planned.	Moderate	CCTOs are monitored by the Statement of Intent and a quarterly reporting process. Returns are expected to continue as forecast in this Plan.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Services and Operations			
Social housing. This Plan has been prepared on the basis that Council's existing policy in relation to social housing continues. Specifically, that social housing operating and capital costs are funded solely through rental income. The current assumptions for Social Housing is a 3.3% growth of available housing stock in 2015/16, a 2% rental increase and inflation as per BERL rates. For 2016/17 onwards rents have been assumed to increase by 2% per year plus BERL inflation.	These rent increases are not sufficient to enable the social housing portfolio to be financially viable in the long term.	High	The Council has consulted on setting up an entity to become a Community Housing Provider (CHP) which will be able to access Government's Income Related Rent Subsidy (IRRS) which over a period of time will allow social housing to be financially viable. Council will have a 49% stake in the entity. A report is going to Council in March 2015 seeking a final decision on whether to proceed with the Community Housing Provider model given Minister Bennett's decision not to extend IRRS to current tenants.. A rent review report is also being drafted for a Council decision in March 2015 which will recommend rental increases to make social housing financially viable in the short term, medium and long term. The recommended rent increase is above the national market's 2% plus BERL inflation and would bring portfolio rents closer to alignment with housing market rents. The recommended increase is closer to the Christchurch housing market's 47% rent increase in the past few years. Between the release of the draft LTP and the Final LTP, the impacts of the decisions above will be known and built into the LTP and until that time it is prudent to continue with the status quo. Should the Council proceed with the Community Housing Provider model this will have the following financial impact which will be reflected in the final LTP: - establishment costs for the CHP - costs in operating the Housing Management Board (overseeing establishment of the CHP) - division of asset, property and tenancy management costs based on the respective roles of the CHP and Council - a Ground lease will be received by Council representing the leasing of the housing portfolio.
Regional Land Transport Plan. Council's Long Term Plan aligns with the Councils submission to the Regional Transport Committee.	The Regional Land Transport Plan is not finalised until late March, which could mean that not all projects are approved by the Regional Transport Committee.	Moderate	Any change to the approved projects would require a review of priorities as New Zealand Transport Agency funding is guided by the Regional Land Transport Plan. If projects are not included co-funding is unlikely to be available.
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.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Anchor project ownership and operating costs The Cost Share Agreement is the underlying document that the Council has used to determine ownership and operating cost requirements. In most instances ownership is clear but where the Agreement is ambiguous Council has assumed as follows for the purposes of this Plan: • **Bus Exchange** Private ownership with Council operation • **The Frame, (Public realm)** Council ownership and maintenance • **The Square** Council ownership and maintenance • **Central Library** Council ownership and operation • **Car parking** Council / private ownership and operation • **Earthquake memorial** Crown/ Council ownership and maintenance • **Metro Sports Facility** Council ownership and operation • **Avon River Precinct** CDHB and Council ownership and operation • **Stadium** For planning purposes we have assumed this will be completed towards the end of the LTP period, (although published CCDU updates indicate a completion date of Quarter 4 2019). The decision to push the construction to the end of the LTP period was used to assist Council's capital expenditure profile and avoid additional expenditure during the most constrained years. Council is currently in discussions with the Crown to enable mutual agreement to be reached on the delivery timetable.	The Cost Share is changed and Council is assigned responsibility for meeting the operating costs of additional venues.	Low	We are not expecting any additional operating or ownership costs from any other of the anchor projects.
Operational efficiency project The purpose of this project is to identify opportunities for improved processes and efficiencies. This should also reduce overall operating costs through efficiencies.	Efficiencies or savings are not found or not able to be implemented in the expected time frame	Medium	No allowance has been made within the Plan because of the difficulty in identifying which areas will be affected, hence all savings found will benefit the ratepayers from year 2 onwards. The outcome of the cost savings project may result in the Council undertaking consultation with the community regarding changes in levels of service.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Insurance cover and natural disaster financing			
Insurance cover The Council has Material Damage cover for all above ground buildings which are undamaged and will have fire cover for all other buildings by June 2015.	Risk of major loss through fire	Low	Financial impact is not expected to be significant.
Riskpool membership obligations The Council is a member of Riskpool and has a portion of its public liability and professional indemnity insurance cover placed with it. Riskpool is a mutual liability trust fund, and calls can be made on members if necessary to meet unforeseen obligations.	That the Riskpool fund determines that additional contributions from members are necessary as the result of unexpected or exceptional circumstances.	Low	No allowance has been made within the Plan for additional contributions as the likelihood is considered to be low.
Natural disaster financial implications. The Christchurch region is susceptible to further damage from earthquake, flooding and tsunamis.	Limited insurance cover is in place for flooding and tsunami. There is currently no cover for earthquake because of the difficulty in identifying the assets to be insured, however, we expect to be able to insure water infrastructure assets as at 30 June 2015, subject to finding a provider. Council is self insuring on the basis of the strength of its balance sheet but could not meet the cost of another event similar to those in 2010 and 2011.	Low	Financial implications of another significant event are large, particularly in the first 10 years when our ability to borrow will be limited due to the high debt to revenue ratios forecast. Creating this ability within ten years from rates would unfairly burden the current ratepayer but it could be achieved by the further sell down of CCHL's investments.