

SIGNIFICANT ASSUMPTIONS

SIGNIFICANT FORECASTING ASSUMPTIONS

The Ten Year Plan has been prepared on the future direction of this Council and is targeted for community consultation as required by the LGA 2002.

In preparing the Ten Year Plan a number of assumptions and predictions about the future have been made. There are always risks and uncertainty with forecasting what will happen in the future. The assumptions underlying this prospective financial information are as at February 2009. Therefore it is likely that what actually happens both financially and non-financially will vary from our projections and those variations may be material.

The guiding principle for the preparation of this Ten Year Plan was to provide sustainable financial management for this Council's activities on behalf of the community. This is a significant challenge for this Council.

The management of Council's external debt has been a key focus of the work to date to ensure that debt levels are manageable and within reasonable credit rating levels.

The relationship of debt to the receipt or likely receipt of development contribution revenues will be closely monitored as we proceed through the Ten Year Plan. The Treasury Management Policy has been revised to reflect the higher debt levels, but also requires that the level of revenue relative to total expenditure is fiscally responsible.

Council has reviewed the extent of the Capital Expenditure programme over the ten years of the Ten Year Plan but it is recognised Council needs to increase the extent of revenue generated to ensure the Treasury Management Policies percentages are met and to ensure the credit rating with Standard and Poors can be maintained at an A level.

AREA	2006 CENSUS			2006-11		2011-16		2016-21	
	Occupied Dwellings	Total Dwellings	Usually Resident Population	Additional Occupied Dwellings	Additional Resident Population	Additional Occupied Dwellings	Additional Resident Population	Additional Occupied Dwellings	Additional Resident Population
Tauranga West	11535	12294	30000	933	2278	703	1654	523	1217
Tauranga Central	8463	9117	20910	1780	4297	1885	4233	1795	4041
Tauranga South	5946	6305	16209	500	1216	418	966	401	944
Mt Maunganui	8082	9679	18864	586	1273	633	1256	722	1485
Papamoa	6555	7458	17583	1525	3606	2235	4991	2339	5203
Tauranga Total	40581	44853	103566	5324	12670	5874	13100	5780	12890

Included in the above projections are new urban growth areas, and potential residential intensification areas.

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CITY GROWTH

Population Projections

Tauranga City is one of the fastest growing cities in New Zealand. The Statistics NZ growth assumptions have historically been conservative and have under represented actual growth. Through the SmartGrowth project, population projections have been prepared through to 2051.

The population projections used for the Ten Year Plan (refer to table on previous page) have been extracted from the "Tauranga City Population and Household Forecast Review 2007". This review allocated the SmartGrowth projections provided by the University of Waikato to statistical meshblock level.

These population projections have been peer reviewed by an external consultant.

NEW URBAN GROWTH AREAS

The new urban growth areas are:

- Bethlehem West
- Pyes Pa West
- Tauriko Business Estate
- Wairakei (Papamoa East Stage 1)
- Te Tumu (Papamoa East Stage 2) - refer below

Development will only be able to proceed once:

- all statutory and structural planning processes are complete; and
- all planning requirements have been met; and
- adequate infrastructure funding has been determined.

Te Tumu

Te Tumu is the second stage of the Papamoa East Development – Wairakei being the first. This major urban growth area is programmed to be opened up in a planned sequence after a significant amount of the preceding Wairakei urban growth area is developed.

The SmartGrowth projections originally had this area commencing in the 2011-2016 period and the 2006/16 Ten Year Plan allowed for the acquisition of land for public works. This was changed in 2007 with revised growth projections and the release of the revised SmartGrowth Strategy, moving the Te Tumu commencement date to the 2021-2026 period.

The Te Tumu land owners are actively seeking the reinstatement of an earlier timeframe for the development of this area. Should the development of Te Tumu commence in the 20016-2019 period, it would impact on this Ten Year Plan with regard to purchase of land and the construction of growth related infrastructure.

The Mayor and Councillors have taken the view that this requirement will not occur within the period of this Ten Year Plan and that the consequences of a review of the timeframe will mean all Te Tumu development costs are to be borne by the developer/s.

GROWTH-RELATED INFRASTRUCTURE COSTS

The 2009-19 Ten Year Plan includes all of the cost of providing infrastructure to accommodate the city's growth except for the local level infrastructure costs associated with:

- City living;

- Suburban residential intensification;
- North-west Bethlehem.

The city living and suburban residential intensification projects are about accommodating some of Tauranga's projected population growth within the existing built up areas of Tauranga and Mt Maunganui. This will require some redevelopment of these areas and some additional or new infrastructure.

North-west Bethlehem is a greenfield growth area located in a part of Bethlehem that is currently vacant. To allow for the residential development of this area some new infrastructure will be required.

The Ten Year Plan includes the cost of city-wide infrastructure associated with the city living and suburban residential intensification projects, and North-west Bethlehem (e.g. water and wastewater treatment plants). It includes some of the costs of local level infrastructure. The design outcomes and structure plans have to be completed and will improve the level of accuracy of the cost of this type of development when this work is finished.

GROWTH UNCERTAINTY AND MONITORING

Approximately 55% of the total capital programme in the Ten Year Plan is growth related.

The quantum and timing of growth is therefore a critical assumption for Tauranga City. Council has introduced a monitoring programme where the actual level of take-up will be reviewed for residential land on a six monthly basis

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and business land on an annual basis. This includes an environmental scan of the development sector and discussion with key stakeholders as to emerging and likely trends.

Council will reassess and if necessary adjust the timing of growth related projects taking into account:

- Information obtained in the growth monitoring programme
- Assessment of land demand and remaining infrastructure network capacities
- Number of growth areas available for development
- Council's Debt position
- Outcome of negotiations with developers to encourage developers to assume a greater share of the risk by forward funding development costs.

Asset Management Plans

Forecast figures included in the Ten Year Plan relating to the management and enhancement of significant assets have been based on Council's Asset Management Plans. The update of the following Asset Management Plans was completed between June 2008 and November 2008:

- Parks and Leisure
- Property Assets
- Roading
- Stormwater
- Wastewater
- Water Supply
- Airport (through the 20 Year Master Plan)

The asset management plans are based on the city growth

assumptions outlined above.

Useful Lives of Significant Assets

Refer to the Statement of Accounting Policies section of this document for information in relation to the useful lives of significant assets.

Sources of Funds for Future Replacement of Significant Assets

Refer to the Revenue and Financing Policy and also the Groups of Activities section of the document for the Statement of Prospective Financial Performance table associated with each activity area.

Levels of Service

The financial information included in this Ten Year Plan has been prepared based upon the levels of service as outlined in the Ten Year Plan documentation. A Level of Service review was carried out during 2005. In some instances Council has defined a desired level of service and has increased funding to achieve this level of service over a number of years. Levels of service in some areas have been reviewed since the 2006-2016 Ten Year Plan.

Projected Growth Change Factors

Refer to the Major Focus section of this document for information and assumptions relating to projected growth assumptions.

Approach to Potential Climate Change Impacts

No impact has been allowed for the potential impact of Emissions Trading Legislation.

The impacts of climate change have been considered in various activities. Where the impacts of climate change have a potential implication on that activity, these impacts have been factored into future forecasts. This is most

evident in the Stormwater activity.

Accounting Policies

The Ten Year Plan has been completed using the same accounting policies as those established for the presentation of the Annual Report.

These accounting policies reflect Council's adoption of International Financial Reporting Standards for the first time. The adoption of International Financial Reporting Standards has not had a significant financial impact on the forecasts included in the Ten Year Plan.

Increase in Future Year's Estimates

There are many aspects that can influence the actual costs that will be incurred in the future. Some of the major ones affecting Tauranga City Council are:

Inflation

It is expected that no material changes will occur from exchange rate movements.

Year	Revenue and Operational Expenditure % Adjustment	Capital Expenditure and Development Contribution Revenue % Adjustment
2009/10	0	0
2010/11	2.9%	3.2%
2011/12	2.8%	2.8%
2012/13	2.6%	2.8%
2013/14	2.8%	2.8%
2014/15	2.7%	3.3%
2015/16	2.9%	3.1%
2016/17	2.9%	3.2%
2017/18	2.8%	3.1%
2018/19	2.9%	2.9%

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The Business and Economic Research Limited (BERL) price change estimates shown below have been used in the preparation of the Prospective Financial Statements. It is recognised that the uncertainty of predicting the impact of any of the above cost influencers is very high.

National Construction Trends	Impact of construction across the country, especially the recent government focus on roading.
Local Construction Trends	Impact of local development and large local construction projects such as the Harbour Bridge duplication and extension to Tauranga Hospital.
International Oil Prices	This impacts on prices of raw materials, especially oil based roading products.
International Exchange Rates	Many of Council's raw materials are sourced from overseas and directly impacted by movements in the exchange rate, particularly large treatment plant constructions.
Market Rates	Movements in market rates particularly impacts Council's future land purchases for reserve development.
Inflation	Impact of general inflation on future prices.

These figures are based on the September BERL estimates. These will be updated once revised BERL numbers are released in March 2009. It is expected that the level of inflation in the short term will reduce.

Tauranga City Council has invested considerable effort into updating Levels of Service, Asset Management Plans and developing a robust Ten Year Plan. This provides important information for the community to assess relative priorities of the proposed projects. To assist the community engagement and understanding of the impact of price changes in the Prospective Financial Statements, the Council has also provided supplementary information which focuses on the effects of growth and levels of service and does not include the effect of price changes.

THE MAJOR COST COMPONENTS

The operational and capital costs within the Ten Year Plan are made up of:

- existing base costs
- growth costs
- level of service changes
- inflation.

The table below describes each of the costs and where in the Ten Year Plan the relevant information can be found. Supplementary information is included to aid the readers understanding of the relevant impacts of costs excluding inflation. The supplementary financial information shows the build up of existing base costs, growth costs and level of service changes.

Cost Type	Cost Description	Information in 10 Year Plan
Existing base cost	Costs to continue to deliver the current level of service to the existing community.	<ul style="list-style-type: none"> • The approved 08/09 budget • Asset renewals (refer capital expenditure schedule for each activity).
Growth costs	Costs to deliver the current level of service to a larger community.	<ul style="list-style-type: none"> • Major Focus section "The Basics" (shows portion of costs related to growth) • Growth related new or upgraded assets (refer capital expenditure schedule for each activity). • Development Contribution Policy (Part B)
Level of service changes	Costs to deliver a higher (or lower) level of service to the whole community.	<ul style="list-style-type: none"> • Major Focus section explains Council's approach to Levels of Service • New, increased or decreased levels of service (refer Level of Service part of each activity) • Other new or upgraded assets (refer capital expenditure schedule for each activity)
Inflation	Increased cost on all (existing, growth and level of service changes) due to price changes.	<ul style="list-style-type: none"> • Impact of inflation is separately disclosed in the Financial Summary, Debt Summary and Rates Revenue Summary in the 'Our Council' section. • Major Focus section discloses impact of inflation separately in all tables • For each activity impact of inflation is separately disclosed in Statement of Prospective Financial Performance
Total Cost	Total for all four above costs	<ul style="list-style-type: none"> • Overall Prospective Statement of Financial Performance, Position, Changes in Equity and Cashflow

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Borrowing and Interest Rates

The interest rates on new external debt assumed for the period of the Ten Year Plan ranges from 5.5% - 7.5% for the ten years from 2009/10 to 2018/19. Consistent with these rate assumptions, borrowing has been based on these wholesale market interest rates.

Interest expense was calculated based on opening debt, adjusted for loans being repaid in the middle of the year and loans for new capital expenditure being taken out in the middle of the year.

The extent of borrowing by Council is planned to rise over the Ten Year Plan period and this will have to be carefully managed.

Investment Interest Rate

The investment interest rates on invested funds assumed for the ten year planning period are:

- Investment rate – 3.5% - 5.0% for all ten years
- Working capital rate – 3.5% - 5.0% for all ten years
- Internal reserves – 3.5% - 5.0% for the ten years

Investment rates are based on the Reserve Bank Official Cash Rate (OCR) estimates.

Vested Assets

It has been assumed that vested assets will be received by Council in accordance with the assumed growth of the city.

Funding Growth Related Development

The growth related component of infrastructure required for new developments – stormwater, wastewater, water supply, roading and facilities and reserves – is proposed to be paid for by development contributions under the

provisions of the Local Government Act 2002.

Council acts as “banker” for the capital expenditure, paying for work to be done and receiving money from the developers when subdivisions are complete.

Council often has to undertake the capital expenditure before development contributions are received and covers the shortfall with debt to be repaid when the development contributions are received.

The Development Contribution (DC) policy is consistent with the capital expenditure programme in the Ten Year Plan. The DC Policy provides for cost of capital to be charged on all Building Impact Fee projects and Subdivision Impact Fee projects which are forward funded by Council effective from 1 July 2009.

The interest rates used for this Cost of Capital are consistent with borrowing rates for the ten years from 2009/10 to 2018/19.

Capital Expenditure

Council’s approach to the funding of capital is presented in the Revenue and Financing Policy. In brief Council policy is to fund capital expenditure from the following sources:

Renewal Expenditure (i.e. replacing an existing asset)

- Depreciation reserves
- Debt
- Rates or user charges
- New Zealand Transport Agency (NZTA)

New Capital Expenditure

- Development contributions
- Debt

- User charges
- Surplus cash or reserves
- New Zealand Transport Agency (NZTA)

Where a capital expenditure project is dependent on financial or other contributions from a third party, it is assumed that those contributions will be received in a timely manner.

Operating Expenditure

Council’s approach to the funding of operational expenditure is presented in the Revenue and Financing Policy.

Expenditure includes increased operating costs (if any) associated with every capital project. Other operating costs (associated with assets resulting from capital expenditure) are assumed to be constant, except where there is expected to be a relationship between costs and increased population.

Costs associated with new debt are included.

Depreciation for new capital expenditure is based on rates established for each individual project. These rates are based on the same useful lives as identified for existing assets.

Revenue

Revenue is generated in accordance with the Revenue and Financing Policy. It is assumed that where community contributions are shown for specific projects, then those contributions will be received.

Creation and Realisation of Investments, Reserves and Assets

The plan assumes that all investments and reserves continue in accordance with their current pattern.

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Depreciation Rates on Planned Asset Acquisitions

Refer to the Statement of Accounting Policies in the Financials section of this document for information relating to depreciation rates on planned asset acquisitions.

Future Revaluations

It has been assumed that asset revaluations will continue on a rolling cyclical basis. This revaluation impact is broadly equivalent to the increase in inflation.

Internal Allocation

Support services in Council are allocated internally to individual activities. Expenditure shown in the Ten Year Plan includes those internal allocations.

Service Delivery Options

For the purposes of the Ten Year Plan, Council has assumed the existing services and methods of delivery will continue except where this has been clearly stated in the Groups of Activities section.

Resource Consents

A majority of Council's capital 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 Ten Year Plan.

Insurance

Council has in excess of a billion dollars of infrastructural assets. Risks are associated with damage to assets, either through accident, disaster, fire, fidelity or negligence.

Council has a range of insurance practices to protect it from these risks including:

- Membership of Risk Pool, a mutual liability fund for public liability insurance purposes. Membership of the Local Authorities' Protection Programme, a mutual fund created by the local government sector to provide funding in the event of damage to underground pipe assets.
- Various general insurances such as those covering business interruption, material damage, vehicles, computers, personal accident, etc.

Regulatory Environment

It is assumed that current national and regional policies, strategies and legislation will not change significantly during the period of the Ten Year Plan.

Local Authority Boundaries

It is assumed that there will be no changes to the nature of the Tauranga City Council's business over the period of the Ten Year Plan.

Changes to Council's business dictated by as yet unknown / unconfirmed legislation or Central Government Policy Change

It is assumed that there will be no change in legislation or central government policy (e.g. change in water quality or Resource Management Act (RMA) requirements) unless otherwise noted.

New Zealand Transport Agency (NZTA)

It has been assumed that financial assistance from NZTA will continue on the same basis and at the same rate as is currently available. For more information, see the Transportation under Groups of Activities section of this document.

Other Significant Assumptions

Council's aquatic centres are owned and operated by Tauranga City Aquatics Limited (TCAL) and the Baypark site by Tauranga City Venues Limited (TCVL), wholly owned subsidiaries of Tauranga City Investments Limited (TCIL) which is wholly owned by Tauranga City Council.

Although the financial projections for TCAL and TCIL have not been consolidated into the Ten Year Plan the net cost to Council of running the aquatic facilities and the Baypark site has been included. The impact of not consolidating the accounts is not expected to have any impact on future funding requirements.

Significant assumptions that relate to specific groups of activities are shown in the relevant part of the Groups of Activities section.