General assumptions

Assumption	Risk	Likelihood and impact	Risk score
Economy and population			
Gross Domestic Product Over the five-year period 2014-2019 real GDP in Northland increased by 3.6% per annum on average, very similar to the national average growth rate of 3.6%. Due to COVID-19, economic activity in Northland is estimated to have contracted by -0.7% in the year ended June 2020 (compared to -0.9% nationally) but grew by 6.8% in 2020/21 (compared to 5.1% nationally). This bumpy ride is expected to continue into the first two years of the LTP before returning to a more consistent growth pattern. Economic activity is forecast to grow by around 1% in 2021/22 due to the negative influences of COVID-19 before rebounding to 5% in 2022/23. A regional GDP growth rate of 2.5% per annum is assumed for the remaining eight years of the LTP being the average annual rate of growth in Northland for the 2010 decade. Sources: Infometrics regional database and NZ Treasury Half Year Economic and Fiscal Update 2021.	The economic recovery is slower than expected.	Likelihood: Medium Impact: Moderate A slower than expected economic growth rate will not have a direct impact on council's operating budget but would impact it indirectly through a variety of channels. For example, it may reduce the returns on council investments (externally managed funds, dividends and investment property) and exacerbate affordability issues resulting in a decrease in rates collection. A 1% reduction in rating revenue ($427,972) in 2022/23 is equivalent to 0.6% of the total operating budget.	3

Population Over the five-year period 2016-2021 the estimated resident population of Northland grew by an average of 2.3% per annum. This is higher than the 1.7% average annual increase in the national population and well-above the Stats NZ medium growth scenario based on the 2013 Census which projected an increase of 1.3% per annum. It is forecast that the Northland population will increase by 1% per annum over the ten years 2021-2031 using the mid-point of Stats NZ high and medium growth scenarios based on the 2018 Census. This is slightly below the projected 1.2% per annum national increase. It is assumed that this will lead to a similar increase in separately used or inhabited parts of a property (SUIP's) and rating units. This equates to an increase of 1511 SUIP's/rating units per year. Population growth is generally in the older age groups (e.g. 65+). These people are more likely to want to age in place (at home) and retire on low fixed incomes (predominantly reliant on superannuation in their later years). Sources: Statistics New Zealand, Subnational population estimates and Subnational population projections, 2018 (base) – 2048 (released 31 March 2021).	Population growth will be significantly different from projected.	Likelihood: Medium low Impact: Minor A lower (higher) rate of population growth will result in a higher (lower) average rate per SUIP/rating unit for a constant level of rating revenue required. The average rate per SUIP/rating unit for 2022/23 is $448 (excl GST). Short-term population changes have very little impact on regional council services. Existing resources have generally coped with service demands without major adjustments. The challenges of an aging population are largely borne by the district councils of Northland (pressures on infrastructure, matching services to demand etc.). However, a higher number of older people ageing in place (at home) will create demand for public transport/mobility to be available to access services and amenities.	1
Council business			
Resource consents The conditions for existing resource consents held by council will not be significantly altered. Any resource consent due for renewal during the year will be renewed accordingly.	Conditions of resource consents are altered significantly or is unable to renew existing resource consents upon expiry.	Likelihood: Low Impact: Moderate The effect of any change to resource consent requirements would depend upon the extent of the change. A significant change in requirements could result in the council needing to spend additional funds to enable compliance. Generally, the council considers that it is fully compliant with existing resource consents and does not contemplate any	1

		material departure from these requirements.	
Legislation and policy change No significant change to council business dictated by as yet unknown/unconfirmed legislation or central government policy change.	Changes to legislation and policy significantly alter operations and activities carried out by council. The new Labour government has signalled a major reform of the Resource Management Act.	Likelihood: Medium Impact: Major The final effect of any change to council's business would depend upon the extent of the change. A significant change could result in the council altering its activities or spending additional funds to enable compliance.	3
Climate change			
Emissions Trading Scheme (ETS) Any indirect impacts of the ETS through price increases being passed on to council are assumed to be covered by council's inflation assumptions. The direct impact of the ETS is that council will be required to replant its forestry holdings after any harvest. The council's forestry management plan prescribes this approach. The council has received ETS credits to financially compensate for this requirement.	Changes in government legislation result in charges greater than the budgeted expenditure.	Likelihood: Low Impact: Minor Any annual changes to the ETS will not have a material effect on the overall financial forecasts in this plan.	1
Climate change impacts The impacts of climate change (e.g. temperature and rainfall) will occur in line with the Ministry for the Environment's climate change predictions, which are based on recommendations from the International Panel on Climate Change (IPCC).	Climate change impacts coming earlier than expected – creating issues regarding civil defence, coastal structures, etc.	Likelihood: Low Impact: Severe Variations to long term budget forecasts and levels of service will be required and will be addressed by future annual and long term plans.	2
Natural disasters Budget provision will be adequate to address costs arising from natural disasters. The council holds insurance for its assets, including the Awanui River Flood Management Scheme.	Natural or other hazard emergencies require work that cannot be funded out of normal budgetary provisions.	Likelihood: Medium low Impact: Major The council's financial position is strong enough to cover short-term funding requirements that may be required in the event of damage caused from	3

		natural disasters. The council may need to consult with the community retrospectively to repay any expense incurred.	

Financial assumptions

Assumption	Risk	Likelihood and impact	Risk score
Inflation			
Opex and Capex The BERL mid-scenario forecast OPEX price adjustor calculated to the end of the September 2021 quarter has been applied to all operational expenditure items subject to inflation except for salaries (see following assumption). The BERL mid-scenario forecast CAPEX price adjustor calculated to the end of the September 2021 quarter has been applied to capital expenditure items subject to inflation. The mid scenario forecast price adjusters calculated to the end of the September 2021 quarter for both the OPEX and CAPEX forecast an inflation rate of 2.4% for 2022/23. The mid-scenario forecast price adjustors, due to being calculated to the end of September 2021, do not make allowance for recent global events. The mid-scenario forecasts are consistent with Treasury and the Reserve Bank of New Zealand forecasts and include BERL's adjustment for the historic record of time taken to recover from previous economic crises. Source: BERL "Local Government Cost Adjustor Forecasts: Three scenarios", 2020	The actual rate of inflation varies from the assumed rate of inflation. In line with the RBNZ scenario, the risks to the assumption are mostly on the downside, i.e. that inflation will be lower than forecast.	Likelihood: Low Impact: Moderate Inflation is affected by external factors, all of which are outside of council's control and influence. Actual individual indices will at times vary from what has been assumed in this plan. The council has relied on the Reserve Bank's use of monetary controls to keep inflation within the 1% to 3% range. A 1% increase in the inflation rate over and above the BERL rates will increase council's total operating expenditure by $388,746 in 2022/23. Should operating expenditure increase, and council is not able to achieve savings to offset the increase, it is likely there will be a proportional impact on council's funding and expenditure in the following year.	1S
Salaries Salaries are based on a council-led staffing initiative. Salary increases have been estimated at 5%.	The actual rate of salary increases is higher than the assumed rate.	Likelihood: Low Impact: Moderate	1

		A 1% increase in salaries over and above the rate applied will increase operating expenditure by $248,312 in 2022/23. Although the actual annual salaries expenditure incurred by council may vary against its corresponding forecast, it is expected to be manageable, and it is not considered that any annual salaries variance will have a material effect on the overall financial forecasts in the Annual Plan.	
Activity income Activity income sources subject to inflation are assumed to increase annually in line with the BERL mid-scenario forecast OPEX price adjustor, with the exception of Waka Kotahi (New Zealand Transport Agency) subsidies and rating income. Budget forecasts were developed on the basis of a council resolution to increase user fees and charges by 2.4% per annum.	The actual activity revenue is influenced by rates of inflation different than the assumed rate.	Likelihood: Low Impact: Minor Although activity income streams may vary annually due to factors outside of councils control, it is considered manageable, and it is not considered to have a material effect on the overall financial forecasts in the Annual Plan.	1
Subsidies			
Waka Kotahi subsidy income Subsidy income is a function of transport activity cost and work categories. The subsidy available for the work categories varies from no subsidy to 54%. The council has assumed there will be no change to the current government funding formula and as such, has applied the subsidy at the level advised by Waka Kotahi at the time of preparing the plan.	Actual subsidy rates and criteria for approved works change from the time the Annual Plan is compiled.	Likelihood: Low Impact: Major The maximum financial impact would be the total elimination of the total subsidy income estimated at $3,100,872 in 2022/23. Changes to the funding priorities of the Waka Kotahi are outside council's control. If the level of Waka Kotahi subsidy income is lower than forecast, it may require a reprioritisation of the transport work programme or an increase in funding from alternative sources (e.g. regional-wide rates).	1
Rates			

Rates increases applied – rating income In order to fund the expenditure outlined throughout the Annual Plan, the council intends to increase its rates 13.9% on average in 2022/23.	That the projected rate increases are insufficient to cover expenditure increases resulting from inflation.	Likelihood: Low Impact: Moderate Rate funding provides approximately 57.7% of council revenue, with the remaining revenue coming from investment income, user charges, grants and subsidies. A 1% increase in rating income would provide $427,945 additional income, whilst a 1% increase in operating costs would equate to an additional $698,217 of expenditure. The difference between the two is considered manageable. However, it may result in a reprioritisation of council's work programme and/or an increase in funding from alternative sources.	1
Rates collection and affordability Rates collection for the 2022/23 year is assumed to be 92% of overall rated income, or 92 cents in the dollar.	Rates arrears are higher than anticipated, with possible link to new legislation managing Māori freehold land.	Likelihood: Medium low Impact: Medium A higher amount of unpaid rates would negatively impact council's budgeted cashflow. A 1% point decrease in rates collection would result in $427,945 less income. If the economic recovery from the COVID-19 crisis does takes longer to occur than assumed, then the level of rates collection is likely to be lower than expected. Council has established the OPEX reserve with a purpose of providing for such an eventuality.	3
Investments			
Externally managed funds Revenue derived from investments in externally managed funds is calculated upon an assumption of returns of 4.15% in the short term fund and 6.03% for the long term fund.	Returns from externally managed funds are lower than forecast.	Likelihood: Medium low Impact: Major A 1% decrease in forecast revenue received on council's externally managed funds will	3

		result in a decrease in interest and capital gains of approximately $46,011.	
Cash investments No interest income is assumed to be derived from cash investments. The council hold working capital in managed funds and releases funds as required.	There are no risks associated with this assumption.		NA
Forestry investment revenue Forestry investment revenue will be in line with the forestry management plan.	Projected forestry returns are lower than those estimated in the plan.	Likelihood: Medium low Impact: Minor There is no forestry harvest scheduled for 2022/23 and as such no forestry investment returns are anticipated.	1
There will be no **fair value movements to the managed fund investment portfolio**. Managed funds values will only change by investment gains earned and retained	Managed fund fair value will vary from the assumption.	Low Any investment revaluations are non-cash in nature so will have no material impact on council's funding sources.	
The forestry is revalued annually. The valuation adjustments are provided by an independent forestry consultant. These are non-cash and as the forest is a long-term asset, the adjustments do not impact on funding or expenditure requirements.			
Dividends			
Marsden Maritime Holdings It is assumed that council will maintain its shareholding in Marsden Maritime Holdings Limited and that the dividend, expressed as a cents per share amount (cps), received from this shareholding will be 16.00. The council is not forecasting any dividends from Regional Software Holdings Limited nor any special dividends from Marsden Maritime Holdings Limited.	The actual dividend per share in Marsden Maritime Holdings Limited is lower than the assumed amount.	Likelihood: Medium Impact: Major A 1 cent per share movement in the declared Marsden Maritime Holdings Limited dividend will have an impact on council's dividend income by $221,429. If the actual dividend income is lower than the forecast other funding sources or savings will be considered to offset the difference. Council has established the OPEX reserve with a purpose of providing for such an eventuality.	3
Investment property			

Rental income It is assumed that council's investment property portfolio will be tenanted throughout the year at the current occupancy rates and that rents will be maintained.	Occupancy rates decline resulting in less than forecast rental income.	Likelihood: Medium low Impact: Moderate A 1% reduction in council's investment property rental income equates to $32,578 in 2022/23. All investment property rentals are subject to contractual obligations which have varying renewal and review periods. Most rental properties have 5, 7 and 21-year lease reviews, and the reviews falling due in any one year will not have a material impact on the annual rental income.	2
Commercial property sales The proceeds from any investment property sale will be reinvested in an investment that provides a return of 6.03% per annum.	That the return on reinvestment is lower than forecast.	Likelihood: Medium low Impact: Minor	1
Revaluation of investment properties The value of council's investment properties is assumed not to change. This assumption is consistent with the expectation that Northland's population and economy will grow slower than the national average.	That the actual revaluation movements will vary from those assumed.	Likelihood: Medium low Impact: Inconsequential A 1% increase in council's investment property portfolio equates to an estimated increase of $751,709 in the value of the portfolio. Any investment revaluations are non-cash in nature so will have no material impact on council's funding sources. There is no impact on depreciation as investment properties are not depreciated.	1
Borrowing costs			
External borrowing costs The cost of existing external borrowing ($19,490,726 at 1 July 2022) is assumed to continue at the current borrowing rates, and that the cost of new debt (from 1 July 2022) is 4.0%.	The prevailing interest rate is higher than that assumed.	Likelihood: Medium low Impact: Moderate Borrowing costs increase or decrease. Small changes are unlikely to affect rates. Large changes, however, may result in an increase or decrease to associated rates.	2
Internal borrowing costs			

Internal borrowing rates are outlined in the Financial Strategy. The actual internal borrowing rate may be subject to change and will be based upon the cost of borrowing and available investment returns at the time of borrowing.		Likelihood: Low Impact: Inconsequential Interest expense and interest income associated with internal borrowing offset each other in the financial forecasts.	1
Building and assets			
Revaluation of land and buildings The values of council's land and buildings will not change.	The actual revaluation movements will vary from those assumed.	Likelihood: Medium low Impact: Inconsequential Any land and building revaluations are non-cash in nature so will have no material impact on the council's funding sources. For land assets there is no impact on depreciation as these assets are not depreciated. If the building revaluations are different from those assumed, it will affect the fixed asset values and flow through to changed levels of depreciation expense. A 1% increase in building asset values will equate to a minimal increase in depreciation.	1
Revaluation of infrastructure assets The values of the council's infrastructure assets will not change.	That the actual revaluation movements will be significantly different from those forecasted.	Likelihood: Medium low Impact: Inconsequential Any infrastructure asset revaluations are non-cash in nature so will have no material impact on the council's funding sources. For land assets there is no impact on depreciation as these assets are not depreciated. If the non-land revaluations are different from those assumed, it will affect the fixed asset values and flow through to changed levels of depreciation expense. A 1% increase in infrastructure asset values will equate to a minimal increase in depreciation.	1
Asset replacement			

It is assumed that sufficient sources of funds for the future replacement of significant assets will be available at the end of their useful life.	Insufficient funds will be available to replace significant assets at the end of their useful lives.	Likelihood: Medium low Impact: Major Targeted regional-wide rates, user charges and other targeted rates will increase to achieve the funding requirements. The council may use borrowings in accordance with the Revenue and Financing Policy, Liability Management Policy and Treasury Management Policy.	3
Useful lives of significant assets The useful lives of significant assets are shown in council's Statement of Accounting Policies. It is assumed that no significant assets will fail before the end of their useful lives as set out in the council's accounting policy. The council is aware of all planned asset acquisitions and all asset acquisitions (as per the capital expenditure program) shall be depreciated on the same basis as existing assets.	That council assets wear out earlier or later than estimated.	Likelihood: Low Impact: Severe The council has several major infrastructural assets. As part of its asset management planning process council identifies the capacity and condition of such assets and plans its replacement program accordingly. Depreciation and interest costs (if borrowing was required) would increase if capital expenditure was required earlier than anticipated, and any earlier replacement may result in the deferral of other discretionary capital projects.	2
	That the council changes activities resulting in decisions not to replace certain existing assets.	Where a decision is made not to replace an asset this will be factored into the capital expenditure projections.	
Vested assets It is assumed that no vesting or divesting of assets occurs.	Assets will be vested with the council.	Likelihood: Low Impact: Major Vested assets have an associated depreciation expense and this will increase the level of rating required if the council decide that the asset would be replaced at the end of its useful life.	1