

SIGNIFICANT ASSUMPTIONS

FINANCIAL FORECASTING ASSUMPTIONS

A core part of the LTCCP 2009-2019 is clarifying the assumptions that have been made in preparing the 10-year financial estimates. These assumptions underpin the quality of those estimates. The overall aim is to apply a well reasoned and supportable set of significant assumptions which will provide readers of the LTCCP 2009-2019 with confidence in the estimates.

The following are the significant council-wide assumptions that have been applied to the LTCCP 2009-2019:

* Price Level Adjustors

The Price Level Adjustors have been provided by BERL – based on work commissioned by the Society of Local Government Managers, specifically to assist local government with the preparation of their LTCCP's. The exception is that the BERL labour costs have been modified to match market predictions both from remuneration specialists and the EMA. These price level adjustors provide for inflation over the 10 years of the Plan and attempt to make the forecasts more relevant to today's values.

PRICE LEVEL ADJUSTORS				
For the years Ending 30 June	2010	2011	2012	2013 -2019 Variable within range
OPERATING				
Staff Costs	3.0%	3.0%	3.0%	3.0%
Other (excluding those below)	3.5%	3.3%	2.3%	2.1–2.5%
Energy	2.1%	2.3%	2.6%	2.9-3.5%
Roads	3.3%	2.9%	2.9%	2.2-2.4%
Water	3.8%	3.0%	2.8%	2.7-3.5%
Property	2.7%	3.1%	2.6%	2.2-3.0%
CAPITAL				
Earthmoving (Roading)	3.4%	3.5%	3.4%	3.1-3.8%
Pipelines (Three Waters)	2.6%	3.2%	3.1%	3.1-3.9%

* New Zealand Transport Agency Funding

The basis of funding provided by the New Zealand Transport Agency (NZTA) for land transport is assumed to be:

Maintenance of Local Roads	51%
Improvement & Replacement of Local Roads	61%
Use of Land Transport System	75%

However, the NZTA have indicated that they will be reviewing these subsidy rates in 2012, and indications are that Franklin may receive a lower subsidy rate in the future, which would impact either on the general rate, or on the amount of work that can be done within the budget indicated.

* Capital Expenditure

Activities requiring an asset management plan have been classified into three categories, which assists in determining the appropriate source of funding for the associated capital works. The proportion of each category within each capital works programme is derived using the Avoidable Cost Allocation Methodology (ACAM).

Renewal

Decline in the value (service potential) of assets is provided on a straight line or diminishing value basis at the rates specified within Council's accounting policy on depreciation. Funds raised from the provision for the decline in asset value (depreciation) within each function are applied to capital renewals.

Level of Service

Level of Service work is funded through the application of other capital reserves or through loan funding (both internal and external borrowing). Interest on loans averages 7%, with repayment provisions based on an average loan life of 25 years, except where the periods and rates are already fixed for existing loans or otherwise specified within Activity Management Plans. The loan life does not normally exceed the average life of the underlying asset(s).

Growth

This category ensures that capacity planning is in place and isolates the cost of growth. Funding for growth is provided from contributions received under Council's development contributions policy, which became operative from 1 July 2004. Development Contributions are received for stormwater, wastewater, water, transport, open space amenities and other community infrastructure activities.

In addition, subdivision contribution revenue is received under the provisions for financial contributions contained in the Resource Management Act 1991. These rules apply only to subdivision applications received before the introduction of the development contributions policy.

* Growth and Demand Impacts

Franklin District Council has developed population growth forecasts based on Council's recently adopted District Growth Strategy (DGS) (August 2007), Statistics New Zealand's June 2007 projections, and growth projections for Tuakau and Pokeno based on knowledge of land owner's development plans. The Statistics New Zealand figures are the high end figures, the reason being that Franklin has historically exceeded the median growth projections.

The following growth and demand projections have been used to plan the long-term future infrastructure requirements for the District. In the short-term, in recognition of the economic downturn, some

infrastructure projects have been deferred to later years in this draft

LTCCP 2009-19:

FORECASTS	POPULATION NUMBERS	POPULATION GROWTH %	HOUSEHOLD NUMBERS	HOUSEHOLD GROWTH %
2008 (2007 to 2008)	63,499	2.1	22,838	2.6
2009 (2008 to 2009)	64,860	2.1	23,437	2.6
2010 (2009 to 2010)	66,247	2.1	24,057	2.6
2011 (2010 to 2011)	67,733	2.2	24,692	2.6
2016 (2015-2016)	74,942	2.0	27,851	2.2
2021 (2020-2021)	82,205	1.8	31,011	2.1
2026 (2025 to 2026)	89,467	1.7	34,198	2.0
2031 (2030-2031)	95,496	1.3	36,953	1.5
2051	117,366		47,034	

The information in this table is based on market economics (DGS project) data provided in Nov 2007. The 2007 figures have been updated to reflect the NZ Statistics June 2007 population total of 62,200.

However, for the purposes of applying the general rate, we have forecast a growth factor of only 1% in rateable units in both 2009/10 and 2010/11. This is based on comparing the latest trends for building consents, subdivision consents and LIM requests with the previously projected growth figures. The significant downward trend is the result of the current global economic downturn, which is predicted to continue for at least the next two years.

* Major Adverse Events

The LTCCP does not include any specific provisions for a major disaster.

Other Significant Assumptions

* Political changes

The Royal Commission of Inquiry into Auckland Governance in Auckland may propose a structure for the Auckland region that has a significant impact on Franklin District Council. However, in the interests of continuing to plan for the well-being of the community, Council has prepared this plan on the basis of the status quo.

* Environmental changes

Climate change is a topic generating much discussion. Despite some uncertainty, Council considers it prudent to plan for commonly agreed changes that are likely to affect the Franklin District. These include, but are not limited to: rising sea levels, increasing rainfall and average temperatures, and more extreme weather events such as flooding and drought.

The demand for communities to achieve higher and higher environmental standards continues. On this basis, Council has allowed for new regional and national standards which have already been foreshadowed, but has made no provision beyond those. Legislation and standards likely to affect environmental standards include National Climate Mitigation policies and the new Waste Minimisation legislation.

The Emissions Trading Scheme, as adopted by the previous Government in 2008, envisages increased costs for carbon intensive services such as energy and transport fuel. As the relevant Act and the ETS itself are under Select Committee review, Council has resolved not to include any funding provisions in this draft LTCCP, but intends to include the necessary changes when the review of the Scheme is complete and the future costs will be clearer.

* Social changes

Franklin's community is expected to continue to diversify and change over the next 10 years. We expect a number of social trends to continue, such as the number of households increasing faster than the population (i.e. people living in smaller groups), so there will be a demand for a range of house sizes. We expect growth to average around 2.0 - 2.1% per annum, and are planning new developments as indicated in our District Growth Strategy (DGS). We have assumed that local authorities will continue to play a key role in promoting the social wellbeing of their communities.

* Technological changes

The impact of new and developing technologies generally enables things to be done better or more economically. Such changes will be incorporated into Council's business as the benefits to the community justify the cost. Our assumption is that technological developments will provide opportunities for the council and for the District, particularly in the areas of broadband, water and wastewater management.

* Resource management changes

Three particular topics about the way we use our resources demand attention:

- * Energy – including availability and cost of cheap oil products. We have made the assumption that energy (including transport) costs will continue to increase over the life of the LTCCP and have made provision for these inflationary costs in this LTCCP. This will affect the District economically and will also impact on Council's operating costs. We have assumed that reliability of energy supply will continue to be a major regional objective.
- * Water – Franklin relies almost entirely on ground water. Growth and increased use of water will continue to put pressure on supply, and FDC will need to consider long-term options for supply and how to manage demand for this resource.
- * People - the shortage of skilled staff nationally will continue to affect both the District and Council in achieving the Community Outcomes.

* Legal changes

The Local Government Act 2002 is currently under review, and may be further reviewed. We have assumed that the major requirements of the Act for consultation, decision-making and financial management will remain in place. We have also assumed that some

major changes to the Resource Management Act are likely over the period of the LTCCP, and that Franklin will need to continue to work cooperatively within the region to achieve shared objectives.

* Economic changes

There is little doubt that the New Zealand economy will continue to feel the effects of the global recession for some time and the final outcome is impossible to predict with any accuracy. December 2008 Treasury forecast predicts a decline in consumption, investment and employment continuing to early 2010 followed by a gradual consumption led recovery. The speed of recovery here will very much depend on how the world economy recovers.

Franklin District can expect to be affected in line with general New Zealand predictions although there are a few significant commodity exporters in our district that are vulnerable to decline in global demand. A weakening New Zealand dollar may assist them.

While a council can do little to change the economic environment we do recognise the effect it will have on the people of the District. Some people will suffer a loss of wealth through investments and property value declines. Potentially the greatest impact is on retired people who will have difficulty recovering those losses. Treasury predicts that the unemployment rate will rise to somewhere between 5.7% and 7.2 % of the workforce by March 2010. Retailers will feel the impact as consumers tighten their belts. The potential social impacts of the recession have been considered and council will continue to work with community partners, and government organisations to achieve Franklin's community outcomes

Approaches and options included in the first 3 years of this draft plan include active stimulation through borrowing and investing in projects that would return to the community, cutting back on growth projects and services to reduce the ratepayers burden.

This approach is based on cautious optimism in line with Treasury

main forecasts. It is designed to keep rate increases as low as possible while maintaining levels of service and those growth projects necessary to position Franklin for the recovery of the economy.

Economic predictions lack certainty and council will continue to work with Enterprise Franklin District Trust (EFDT) to monitor our economic situation and adjust plans by way of annual planning as necessary

*** Cultural changes**

Franklin sees itself as, and wants to remain, a largely rural district. However, ongoing rapid growth, and implementation of the DGS, will bring changes to the rural/lifestyle/urban mix within the District.

Council will continue to support increased participation by Maori in decision-making, and will continue to pro-actively engage with the diverse communities within the District.

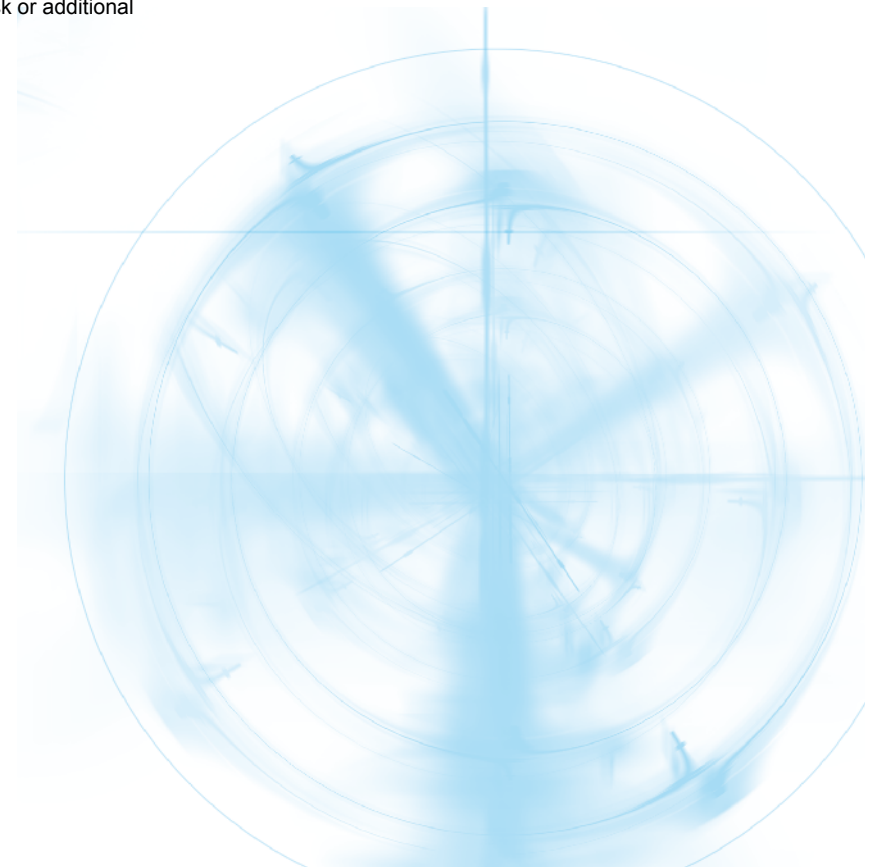
*** Regional engagement**

We have assumed that engaging regionally and working co-operatively towards shared regional objectives in both the Auckland and Waikato regions will continue in some form, especially for environmental and transport matters.

Franklin has a number of significant hazards across its district. An emergency management response structure for the District has been established and we have assumed that FDC will continue to participate in both the Auckland and Waikato regional response planning initiatives.

It should be noted that the management of Land Drainage Schemes (which are small local drainage schemes owned by local landowners) will, by agreement, be passed to Environment Waikato at the end of the first year of this LTCCP. Some costs for this transition phase are included in the first year.

In recognition of the current economic conditions impacting on District growth over the next two years some respite has been provided to Developers in the form of a deferral option for the payment of Development Contributions within that period. The plan currently makes provision for an up to two year payment deferral from existing due dates with the yet to be finalised detailed policy incorporating appropriate conditions to mitigate risk or additional costs to ratepayers.



SIGNIFICANT RISKS CONSIDERED WHEN PREPARING THE LTCCP

There are no cases in the LTCCP that include a high level of uncertainty. There are some situations where there may be some level of uncertainty. These are detailed below.

Assumption	Risk to assumption	Risk level	Likely financial effect	Consequence / mitigation strategy
Price Level Adjustments	Inflation is lower or higher	Medium	Medium	The cumulative effect of price level changes introduces the greatest probability of uncertainty to the prospective financial statements. There is little Council can do to mitigate the effect of inflation. As Council reviews the LTCCP it will consider the effects of price level changes and alter the forecast as necessary.
Internal and External Borrowing	Interest rates are higher or lower	Medium	Medium	Interest rates on borrowed funds are largely influenced by factors external to the New Zealand economy. Council is projecting a significant increase in debt to fund various projects. Based on Council's projected debt levels, annual interest cost will increase/decrease between \$873K and \$1,573K (2017/18) for every 1% movement in interest rates. Council can review the effect of interest changes every year through it's annual plan process and if significant, highlight as a key issue for consultant.
Land Transport NZ Funding	Funding from Land Transport NZ is higher or lower	Medium	High	Changes the level of rates and debt. Examine service levels and work programme and adjust if necessary.
Subdivision Contributions	Growth is higher or lower	Medium	Medium	The Council has made assumptions about the level and amount of development contributions to be received as a result of growth and also the number of ratepayers in the district to share the rating burden. If development occurs at a different rate then these projections will need to be amended.
Growth and Demand	Growth is higher or lower	Medium	Medium	Where growth requires extra infrastructure, Council will require development contributions for this work. Costs over this amount will result in extra Council expenditure which will need to be funded out of debt. Council will review growth rates when updated information is available and amend the plan if there have been any significant changes in the trends.
Capital Expenditure	Delays in completion of major capital works projects may delay completion of other projects	Medium	Medium	Council regularly manages capital projects that are carried forward from previous accounting periods. Projects with lower priority and that are less sensitive will be delayed. Delays in capital projects may also result in over collection of revenue to fund borrowing costs.
Major Adverse Events	That there will be natural disaster event(s) requiring emergency work that cannot be funded out of normal budgetary provisions	Medium	High	Although Council has faced natural disaster events in the past, and coped adequately, climate change predictions are that some events could become more frequent and more intense. The potential effect of a natural disaster on Council's financial position is dependent upon the scale, duration and location of the event. Central government assistance and insurance contracts would reduce some of the Council financial risk. Risk management plans for infrastructure assets and the possibility of a pandemic are being developed.

Cautionary Note

The forecast financial statements are prepared on the basis of best estimates available at the time of preparing the accounts. Actual results are likely to vary from the information presented and the variations may be material.

Group Prospective Financial Statements

Council has not presented group prospective financial statements as it believes that the parent prospective financial statements are more relevant to users. The main purpose of financial statements in the LTCCP is to provide users with information about the core services that the Council intends to provide ratepayers, the expected cost of those services and how Council intends to fund the intended level of service.

Balanced Budget Requirement

Council, having regard to the matters set out in section 100 (2) (a) - (d) of the Local Government Act 2002, considers that it is financially prudent to set operating revenues at higher levels than operating expenses throughout the 10-year plan to ensure that sufficient revenue is generated to repay loans in accordance with the Liability Management Policy and to provide funding for the capital works programme.

Authorisation for Issue

This document was authorised by Council on, and is dated 25 June 2009.

