General assumptions

Assumption	Risk	Likelihood and impact	Risk score
Economy and population			
Gross Domestic Product Over the five-year period 2017-2022 real GDP in Northland increased by 2.7% per annum on average, the same as the national average growth rate. However, there was considerable annual fluctuations during this period. Due to COVID-19, economic activity in Northland contracted by -0.7% in the year ended June 2020 (compared to -0.5% nationally). The economy bounced back strongly in 2020/21, growing by 8.1% (6.1% nationally) before falling by -0.3% in 2021/22 (1.2% nationally). Economic activity is forecast to have grown by just 0.1% in 2022/23 (3.2% nationally) due to the closure of refining activity at Marsden Point, and by 1% in 2023/24 due to the dampening effects of inflation and higher interest rates. Economic activity is assumed to remain subdued in the first year of the LTP, growing by 2% in 2024/25. For the remaining nine years of the LTP an average of 3% is assumed, being the average annual rate of growth in Northland for the ten-year period 2012-2022. Sources: Infometrics Quarterly Economic Monitor data and NZ Treasury Pre-election Economic and Fiscal Update 2023.	The economic slowdown is harder and longer 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 ($567,578) in 2025/26 is equivalent to 0.6% of the total operating budget.	3

Population Over the five-year period 2018-2023 the estimated resident population of Northland grew by an average of 1.9% per annum. This is higher than the 1.2% average annual increase in the national population. It is the same as the high growth scenario projected by Stats NZ in March 2021 based on the 2018 Census results (medium growth projection was 1.4%). It is forecast that the Northland population will increase by 1% per annum over the ten years 2021-2031 using the mid-point of the high and medium growth scenarios projected by Infometrics (1.2% and 0.8% respectively). This is slightly below the projected 1.1% 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 960 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); Infometrics Population Projections	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 2025/26 is $573.25 (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, there is some impact on regional council services. For example, 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	1

		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 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 National-led coalition government repealed the Natural and Built Environment Act and Spatial Planning Act in December 2023. They have also indicated that they will in the future first amend the Resource Management Act (RMA) 1991 to make it easier to consent new infrastructure and then replace the RMA with new resource management laws based on the enjoyment of property rights.	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
Ability to deliver on planned capital projects Council can procure contractors to carry out its planned capital works in accordance with the scheduled programme.	Ability to procure contractors is constrained by strong market demand from other councils undertaking similar capital works.	Likelihood: Low Impact: Severe While the impact would be significant, the likelihood is low as the capital works programme is well managed within council, the programme of works is well known to external contractors, and most are underway.	2
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.	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

The council's forestry management plan prescribes this approach. The council has received ETS credits to financially compensate for this requirement.			
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 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 natural disasters. The council may need to consult with the community retrospectively to repay any expense incurred.	3

Financial assumptions

Assumption	Risk	Likelihood and impact	Risk score
Inflation			
Opex and Capex The BERL forecast OPEX price adjustor calculated to the end of July 2024 has been applied to all operational expenditure items subject to inflation except for salaries (see following assumption). The BERL forecast CAPEX price adjustor calculated to the end of July 2024 has been applied to capital expenditure items subject to inflation. The forecast price adjusters calculated to the end of July 2024 for OPEX is forecast at an inflation rate of 3.1% and CAPEX is forecast at an inflation rate of 3.1% for 2025/26. The 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 Adjuster Forecasts", 2023	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 $449,662 in 2025/26. 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.	1
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 A 1% increase in salaries over and above the rate applied will increase operating expenditure by $358,204 in 2025/26. 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	1

		on the overall financial forecasts in the Annual Plan.	
Activity income (User fees) Activity income sources subject to inflation are assumed to increase annually in line with the BERL forecast OPEX price adjustor, with the exception of NZ Transport Agency Waka Kotahi subsidies and rating income. Budget forecasts were developed on the basis of a council resolution to increase user fees and charges by 3.1% per annum.	The actual activity revenue is influenced by rates of inflation different than the assumed rate.	Likelihood: Medium 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 100%, with the majority of the subsidy being 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 NZ Transport Agency 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 $2,252,335 in 2025/26. Changes to the funding priorities of NZ Transport Agency Waka Kotahi are outside council's control. If the level of NZ Transport Agency Waka Kotahi's 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 3.54% on average in 2025/26.	That the projected rate increases are insufficient to cover expenditure increases resulting from inflation.	Likelihood: Low Impact: Moderate Rate funding provides approximately 66.2% of council revenue, with the remaining revenue coming from investment income, user charges, grants and subsidies. A 1% increase in rating income would provide $567,578 additional income, whilst a 1% increase in operating costs would equate to an additional $883,164 of expenditure.	1

		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.	
Rates collection and affordability Rates collection for the 2025/26 year is assumed to be 93% of overall rated income, or 93 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 $567,578 less income. Council has established the opex reserve to provide 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 5.0% in the short-term fund and 7.25% 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 result in a decrease in interest and capital gains of approximately $70,514.	3
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.		N/A
Forestry investment revenue It is assumed that no forestry harvest will occur in 2025/26, in line with the forestry management plan. Therefore, council is not forecasting harvest returns in this plan.	Forestry returns are different to those estimated in the plan.	Likelihood: Low Impact: Minor If returns are received where they have not been assumed/ forecast these can be retained in council's Equalisation reserve.	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.	1

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 affect funding or expenditure requirements.	There are no risks associated with this assumption.		N/A
Joint Venture Investment			
Dividends It is assumed that council will receive an averaged annual dividend from its equity investment in Northport Group Limited of 80% (NPAT), over the next 10 years, with council's share of this being 43%. The council is not forecasting any dividends from Regional Software Holdings Limited, nor any special dividends from Northport Group Limited.	The actual dividend per share in Northport Group Limited is lower than the assumed amount.	Likelihood: Medium high Impact: Major A 1% movement in equity holding will have an impact on council's dividend income by $403,486. If the actual dividend income is lower than forecast, other funding sources or savings will be considered to offset the difference. This may include the use of reserve funds, in keeping with the purpose of those reserves.	3
Capital contribution It is assumed that the capital contribution will be maintained at $41M, and that there will be opportunities to re-assess at two milestone points during the transaction, at due diligence and scheme completion.	The actual capital contribution required will vary from originally assumed.	Likelihood: Medium high Impact: Low A 1% movement in capital contribution would be $407,800.	
Shareholder Loans It is assumed that the shareholder loans will earn interest at market rate. For the purposes of this plan market rate has been assumed to renew at 5.61% year on year.	The actual market rate is lower than that assumed.	Likelihood: Medium high Impact: Low A reduction in the market rate by 100 basis points (1%) would result in lower interest revenue of $341,328 per annum.. If the actual interest income is lower than forecast, it will increase the time frame for debt associated with the acquisition to be repaid.	
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 $34,693 in 2025/26. 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 7.25% per annum.	That the return on reinvestment is lower than forecast.	Likelihood: Medium low Impact: Minor	1
Revaluation of investment properties The values of council's investment properties has a revaluation applied at the average rate of the rental income inflation.	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 $833,164 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 ($24,458,000 at 1 July 2024) is assumed to continue at the current borrowing rates, and that the average cost of new debt (from 1 July 2025) is 5.3%. Borrowing notes have been assumed at 3% on any new borrowing (from 1 July 2025).	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.	The internal borrowing rate is higher than that assumed.	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 are assumed to increase by cumulative BERL inflation, with the revaluation completed every three years. The first revaluation has been applied in 2025/26.	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.	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	3

		financing policy, liability management policy and treasury management policy.	
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