

## 5.0 Financial information

### 5.1 Financial forecast

The consolidated 10-year financial forecasts for the stormwater activity are presented in Figure 11. The consolidated financial forecast is included as an attachment.

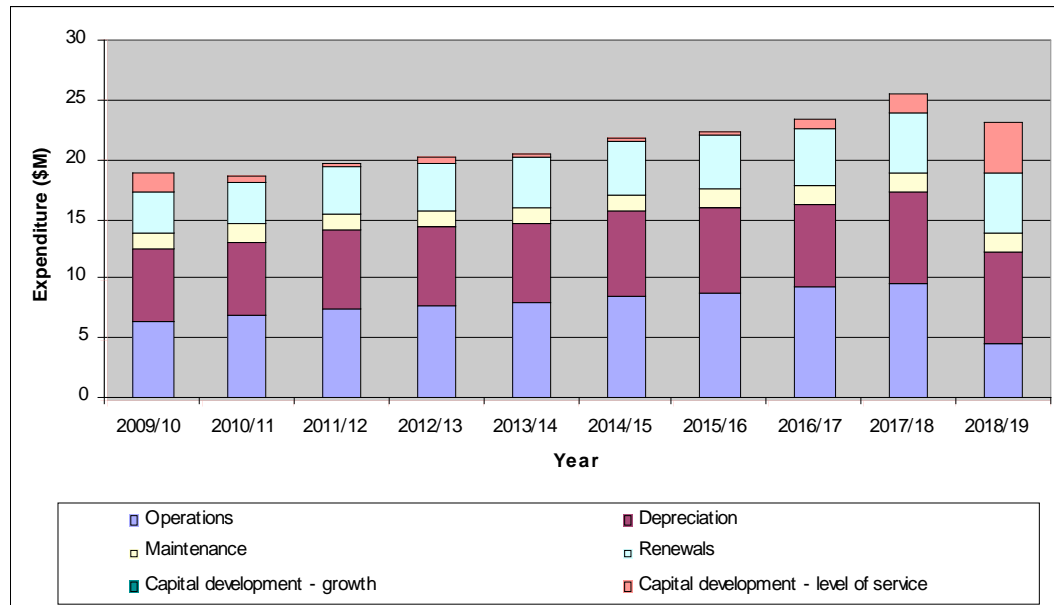


Figure 11 – Consolidated financial forecast

The key trends in the 10-year financial forecast are:

- Operations and asset management – increases from \$13.9 million to \$19.0 million in 2017/18, before reducing to \$14.0 million the following year. Increases are due predominantly to significant incremental increases in corporate interest allocation to reflect the level of investment in capital works and the resulting increase in asset value. Depreciation also increases marginally, reflecting this capital investment.
- Maintenance – reduces from \$1.4 million showing marginal increases through the planning period to reflect additional unplanned maintenance needs as the network ages.
- Renewals – approximately \$3.3 million per year is budgeted for next year with gradual increases over the next 10 years for renewal works to reach \$5.0 million in 2018/19.
- Capital development for level of service enhancement – \$10.5 million is budgeted over the next 10 years for ongoing network upgrades to improve the level of flood protection in vulnerable parts of the city.
- No growth-related projects have been identified for this asset management plan.

## 5.2 Assumptions and data confidence

### 5.2.1 Assumptions

The following general assumptions have been made in preparing the expenditure forecasts:

- All expenditure is stated in dollar values as at June 2008 with no allowance made for inflation over the 10-year planning period. They will be inflation-indexed in terms of the BERL economic forecast index for the water industry, as recommended by the Audit Office, prior to finalising in the LTCCP.
- The rate and pattern of urban growth and development continues as assumed and noted within Section 2.2 of this plan.
- Maintenance costs are based largely on historical expenditure and assume there are no significant changes in contract rates (above the rate of inflation). Impacts of fuel tax are still being assessed and will be included in updated financial forecasts in subsequent versions of this plan.
- Maintenance and renewal allocations have been based on preserving current levels of service. Expenditure levels have been increased to match the growth of new assets and achieve the target levels of service noted in Section 2.
- Remaining lives for pipeline renewals planning are based on a top-down condition assessment and assumed deterioration profile.
- Repairs exceeding \$10,000 are capitalised as a renewals item.
- The dominant reason (growth or level of service enhancement) for renewing or upgrading a stormwater drain is used to assign such works to a corresponding renewal or upgrading programme.

### 5.2.2 Confidence levels

The short-term forecasts have been assessed as being reliable based on the grading system from the NZ Guidelines for Infrastructure Asset Grading Standards. The most significant potential changes to the forecasts will result from:

- The desired level of service and service standards may change from those identified in this asset management plan, particularly consent and other regulatory or legislative requirements.
- Assumptions made as to the average useful lives and average remaining lives of the asset groups based on current local knowledge and experience, historical trends, and predictive modelling outputs may no longer be valid. (These need to be reviewed and the accuracy improved based on real time assessments of asset deterioration. Review of the effective economic life of pipeline assets has the potential for greatest variance in future cost predictions.)
- Peak stormwater flows may change due to the effect of climate change.
- Contract rates may be above inflation due to market or other external influences.

## 5.3 Development contributions

Development contributions are not levied for the stormwater activity.

## 5.4 Funding the stormwater activity

The activities undertaken in order to provide the stormwater service are funded as described below:

### Operating expenditure

- Who benefits:
  - identifiable parts of the community – 50 per cent
  - whole community – 50 per cent
- Who pays:
  - base (residential sector) – 80 per cent
  - commercial sector – 20 per cent
- Funding mechanism:
  - residential targeted rates – 80 per cent
  - commercial targeted rates – 20 per cent

### Capital expenditure

- Renewal and rehabilitation
  - funded from depreciation (an operating expense funded from rates). Any annual surplus depreciation is used to repay borrowings.
- Capital - level of service enhancement
  - primarily funded from borrowings.
  - contributions from third-party capital subsidies.
  - contributions from sale of surplus assets where applicable (this is decided on a case-by-case basis – funds received in this manner which are not applied to capital development works are used to repay borrowings)
  - contributions from restricted or special funds where applicable (this is decided on a case-by-case basis)
- Capital development – growth related
  - primarily funded from development contributions
  - RMA-based financial contributions continue to be used in some circumstances
  - contributions from borrowings.