

5.0 Financial requirements

5.1 Financial forecast

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

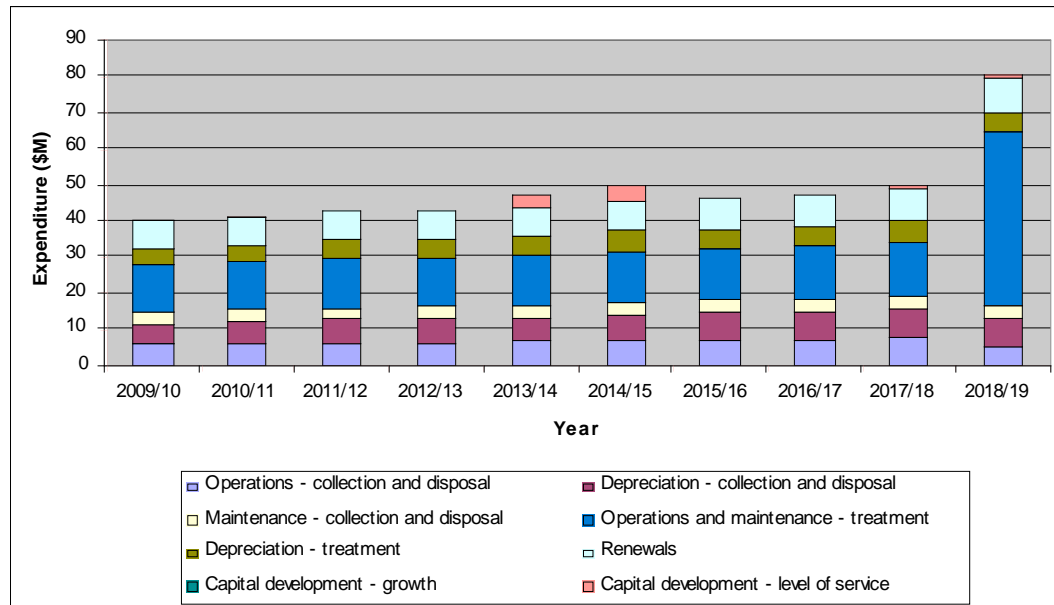


Figure 11 - Consolidated financial forecast

The key trends in the 10 year financial forecast are:

- Operations, collection and disposal – increases 10 per cent over the 10-year planning period from \$5.8 million due to increases in the corporate interest allocation, and, to a lesser extent, marginal increases in all programmes to reflect the aging of the network.
- Maintenance, collection and disposal – marginal increase over the planning period to reflect additional unplanned maintenance needs as the network ages.
- Operations and maintenance, treatment – constant expenditure of \$12.5 million per annum throughout the 10-year planning period.
- Depreciation – marginal increase over the planning period to reflect the acquisition of vested assets and the network renewal programme.
- Renewals – \$72 million is budgeted over the next 10 years for pipeline renewals.
- Capital development for level of service enhancement – \$2.3 million is budgeted over the next 10 years for ongoing pipe network upgrades (\$0.17 million per annum) and the completion of the pump station sewage overflow prevention programme (\$0.5 million) in 2007/08.
- Capital development for growth – no growth-related projects have been identified.

5.2 Assumptions and data confidence

5.2.1 Assumptions

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

- Wastewater assets will remain in Council ownership throughout the planning period, except where specifically identified.
- All expenditure is stated in dollar values as of June 2008 with 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).
- Maintenance and renewal allocations are based on preserving current levels of service, and expenditure levels are 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.
- Many capital projects have renewals and upgrading components within them. The Council estimates the proportion of upgrade costs accounted for over the year as renewal works, and funds a single project from this upgrade account.

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 may result from the following factors:

- changes in the desired level of service and service standards from those identified in this asset management plan, particularly consent and other regulatory or legislative requirements
- changes in inflow and infiltration, particularly infiltration from aging pipe networks including private laterals, and the effect of climate change
- assumptions are 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 (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)
- changes in contract rates above inflation due to market or other external influences.

5.3 Development contributions

Development contributions for the wastewater activity are levied to recognise the investment required for:

- The ongoing citywide upgrade of the capacity of pipes and pump stations; a proportion of renewal expenditure is assigned to growth to recognise the additional capacity provided in these projects to cater for future growth in demand.
- Historical Council funded capital works associated with the provision of the Moa Point and Western treatment facilities which included additional capacity for growth.
- Capital expenditure incurred to purchase additional capacity in the Porirua treatment plant from Porirua City Council.

5.4 Funding the wastewater activity

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

Operating expenditure

- Who benefits:
 - identifiable parts of the community – 80 per cent
 - whole community – 20 per cent
- Who pays:
 - base (residential sector) – 60 per cent
 - commercial sector – 40 per cent
- Funding mechanism:
 - residential targeted rates - 60 per cent
 - commercial targeted rates – 40 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 development (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):
 - primarily funded from development contributions
 - RMA-based financial contributions continue to be used in some circumstances
 - contributions from borrowings.