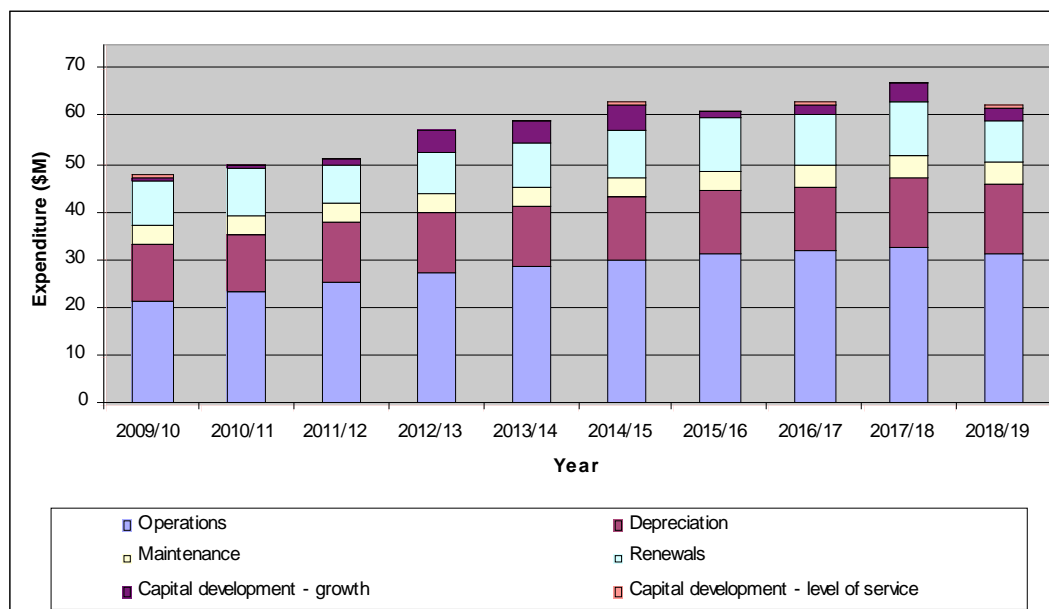


## 5.0 Financial information

### 5.1 Financial forecast

The consolidated 10 year financial forecasts for the water supply activity are presented in Figure 13. The consolidated financial forecast is included as an attachment.



**Figure 13 - Consolidated financial forecast**

The key trends in the 10 year financial forecast are:

- Operations and asset management – increases to peak at \$32 million per annum in 2015/16. This reflects significant incremental increases in the interest allocation to reflect the level of investment in capital works and marginal increases in asset management planning and monitoring budgets. Depreciation also increases marginally, reflecting this capital investment.
- Bulk water supply – \$12.6 million per annum is provided for bulk water purchases from the Greater Wellington Regional Council.
- Maintenance – an increase over the planning period from \$3.4 million reflects additional maintenance needs as the network ages.
- Renewals - \$104 million is budgeted over the period 2009 to 2018 for water supply asset renewals. Seventy-nine per cent of this expenditure is targeted at reticulation renewals, with 14 per cent and 8 per cent targeted at reservoir and pump station renewals respectively. There are several major projects identified in the short term, with renewals expenditure forecast to reduce towards the second half of the planning period.
- Capital development for growth – \$16.5 million is budgeted over the period 2007 to 2018 for pump station and reservoir upgrades, and an on-going programme of water pipe capacity upgrades has been budgeted at \$0.3 million per annum
- Capital development for level of service – an ongoing programme of area water installation (\$250,000 per annum) is planned to enhance network monitoring and control.

## **5.2 Assumptions and data confidence**

### **5.2.1 Assumptions**

The following general assumptions have been made in preparing the 10-year expenditure forecasts:

- All expenditure is stated in dollar values as at 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). 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, and expenditure levels have been increased to match the growth of new assets and achieve the target levels of service noted in Section 2. No significant optimisation works have been allowed for, pending the outcomes of the planned network optimisation work as part of the development of the network strategic plan.
- 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.
- A 3 per cent levy to bulk water purchase rates from 2007/08 currently applied by the Greater Wellington Regional Council to provide capital to develop a new raw water source is included in the forecast.

### **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 financial projections shown will result from:

- 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
- assumptions have been 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 unaccounted for water, particularly leakage from aging pipe network
- changes in contract rates above inflation due to market or other external influences.

### 5.3 Development contributions

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

- The ongoing citywide upgrade of the capacity of water supply network pipes and pump stations. A proportion of pipe renewal expenditure is assigned to growth to recognise the additional capacity provided in these projects to cater for future growth in demand.
- Capital works to provide additional reservoir and pump station capacity for specific catchments.

### 5.4 Funding the water supply activity

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

#### **Operating expenditure**

- Who benefits:
  - Identifiable parts of the community – 75 per cent.
  - Whole community – 25 per cent.
- Who pays:
  - User charges – 0 per cent.
  - 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 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 will continue to be used in some circumstances.
  - Contributions from borrowings.