

Financial Assumptions

Financial Assumptions and Risk Assessment

Forecasting Assumptions - Financial	Risk	Level of Uncertainty	Reasons and Financial Effect of Uncertainty
Inflation - The financial information is based on constant year 2004 dollars. Inflation is not reflected in Council's input and output costs.	That there will be inflation.	High	Inflation is affected by external economic factors. Council's costs and the income required to fund those costs will increase by the rate of inflation unless efficiency gains can be made.
Interest – Interest on Term Debt is calculated at 7.0% per annum. Interest on Investments is calculated at 6.0%	That interest rates will change from those used in the calculations.	Medium	Forecasts are for interest rates to increase slightly in 2004/05. Council will manage this through interest-rate risk management instruments for external debt and by using internal borrowing as much as possible.
Revaluation – The projections do not reflect any change in asset valuations because there is no basis upon which to estimate any possible changes.	Infrastructure is to be revalued at 30 th June 2005 which may alter the depreciation expense in subsequent years.	Medium	Variation in values expected to be low unless valuation methodology changes. Financial effect of uncertainty unable to be quantified.
Vested Assets – No vesting of assets has been included in the plan.	That Council will have assets vested thereby increasing the depreciation expense in subsequent years.	High	Vested assets fluctuate considerably from year to year but historical levels have not been significant. Financial effect of uncertainty is unable to be quantified but is expected to be low.
Funding Sources – Sources of funds are as per the Revenue and Financing Policy.	That some user charges may not be achievable.	Low	Levels of charges have been set at previously achieved levels.
Capital Works Costs – On average, costs of major capital works will not vary significantly from costs estimated at the concept stage.	That some project costs turn out greater than estimates resulting in increased debt levels.	Medium in years one to three but higher further out.	Council has a higher level of confidence regarding the costs of capital projects in the short-term but less certainty in the longer term due to possible fluctuations in the economy, growth patterns, consent conditions, etc.

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<p>Depreciation – Depreciation has been calculated on asset values at their latest revaluation date, and thereafter on additions at cost.</p> <p>As detailed componentry for infrastructure is not always available for planned new capital works, estimated asset lives have been applied to these works at a project level for the calculation of depreciation as follows: Years</p> <table border="0" data-bbox="197 635 645 879"> <tr> <td>Roads (Seal extension)</td> <td>40</td> </tr> <tr> <td>Land Drainage</td> <td>50</td> </tr> <tr> <td>Water</td> <td>50 - 80</td> </tr> <tr> <td>Wastewater</td> <td>50 - 80</td> </tr> <tr> <td>Footpaths</td> <td>30</td> </tr> <tr> <td>Parks Furniture & Fittings</td> <td>20 - 50</td> </tr> <tr> <td>Solid Waste Disposal</td> <td>50</td> </tr> <tr> <td>Buildings</td> <td>50</td> </tr> </table>	Roads (Seal extension)	40	Land Drainage	50	Water	50 - 80	Wastewater	50 - 80	Footpaths	30	Parks Furniture & Fittings	20 - 50	Solid Waste Disposal	50	Buildings	50	<p>That more detailed analysis of planned capital works once complete may alter the depreciation expense.</p>	<p>Low</p>	<p>Council has an asset management planning and upgrade programme in place. Asset capacity and condition is monitored with replacement works being planned in accordance with standard asset management and professional practices. Depreciation is calculated in accordance with normal accounting and asset management practices.</p>
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<p>Asset Life – Useful life of assets is as recorded in asset management plans or based upon professional advice.</p>	<p>That assets wear out earlier than estimated.</p>	<p>Low</p>	<p>Asset life is based upon estimates of engineers and valuers.</p> <p>Asset Replacements Capital projects could be brought forward in event of early expiration of assets affecting interest costs. (Depreciation expense would also increase.) The negative impacts would be at least partially offset by other assets lasting longer than estimated.</p>																