

Forecast Financial Statements



PURPOSE OF FINANCIAL STATEMENTS

Statement of Financial Performance

This statement discloses the net surplus or deficit and the components of the net surplus (deficit), arising from activities or events during the year that are significant for the assessment of both past and future financial performance.

Performance by Council Activity

Activities have been grouped into major activities of Council. This statement shows a summary of the revenue/expenditure and net cost of service for each activity.

Net cost of service is the net cost of expenditure less revenue. A positive net cost of service indicates that the expenditure exceeded revenue and is an operational cost to the ratepayer. A negative net cost of service is those activities where revenue exceeded expenditure.

Statement of Movement in Equity

This financial statement contributes to the objectives of general purpose financial reporting by combining information, about net surplus (deficit) with other aspects of Council's financial performance in order to give a degree of measure of comprehensive income.

Statement of Financial Position

Information about the economic resources controlled by Council and its capacity to modify those resources, is useful in assessing Council's ability to generate cash and/or provide services in the future. Information about the financing structure is useful in assessing future borrowing needs, and how future surpluses and cashflows may be distributed among those with an interest in the Council. The information is also useful in assessing how successful the Council is likely to be in raising further finance.

Statement of Cashflow

This statement reflects Council's cash receipts and cash payments during the year and provides useful information about Council's activities in generating cash through operations to:

- repay debt; or
- re-invest to maintain or expand operating capacity.

Statement of Accounting Policies

The accounting policies adopted by Council can have a significant impact on the financial and service performance, financial position and cashflows that are reported in its financial reports. Therefore, for a proper appreciation of those reports, users need to be aware of:

- a) the measurement system underlying the preparation of the financial reports; and
- b) the accounting policies followed in respect of individual items in the financial reports, especially where there are acceptable alternatives for dealing with any such items; and
- c) any changes in the measurement system, assumptions or particular accounting policies.

Forecasting Assumptions

This section lists significant forecasting assumptions in preparing the plan. The financial statements are of a prospective nature. This means they have been prepared on the basis of assumptions as to future events that Council reasonably expects to occur, associated with actions that Council reasonably expects to take, at the time of preparing the information. Actual results may vary and some variations could be material. The information prepared is for the 2005/06 Annual Plan and amendments to The Ten Year Plan and may not be appropriate for other purposes.

Notes to the Financial Statements

Provide further detail to the summary performance in compliance with accounting standards.

STATEMENT OF FINANCIAL PERFORMANCE

(thousands)	Council 2004 Actual	Council 2005 Ten Year	Council 2006 Ten Year	Council 2006 Annual Plan	Group 2006 Ten Year	Group 2006 Annual Plan
General Rates	35,391	36,658	37,356	38,501	37,356	38,501
Lakes Enhancement Rate	0	0	0	347	0	347
Water Rates	2,256	2,333	2,405	2,476	2,405	2,476
Sewerage Rates	6,899	7,060	7,632	7,335	7,632	7,335
Refuse Rates	1,360	1,351	1,351	1,351	1,351	1,351
New Waste Water Schemes	0	0	1,554	74	1,554	74
Less Rates Paid By Council	(699)	(737)	(740)	(774)	(740)	(774)
Total Rates	45,207	46,665	49,558	49,310	49,558	49,310
Community Leadership	1,920	1,415	1,119	376	1,119	376
Social and Cultural	10,039	14,491	9,743	19,584	9,743	19,584
Environment	4,261	3,123	3,124	3,467	3,124	3,467
Economic	1,480	1,449	1,569	1,961	1,569	1,961
Infrastructure	9,910	14,398	12,769	14,148	13,824	15,808
Castlecourt Business Unit	254	188	188	219	188	219
Vested Assets	745	1,650	1,650	800	1,650	800
Total Other Revenue	28,609	36,714	30,162	40,555	31,217	42,215
Total Revenue	73,816	83,379	79,720	89,865	80,775	91,525
OPERATING EXPENDITURE						
Community Leadership	5,316	5,084	4,835	3,911	4,835	3,911
Social and Cultural	20,803	24,740	25,198	26,821	25,198	26,821
Environment	7,031	7,269	7,200	8,057	7,200	8,057
Economic	3,226	3,721	3,925	4,872	3,925	4,872
Infrastructure	30,670	32,242	33,176	35,649	34,231	37,260
Castlecourt Business Unit	213	188	188	220	188	220
Corporate Wide	668	1,000	1,000	1,000	1,000	1,000
Less Internal Charges						
In Operating Expenses	(837)	(863)	(870)	(908)	(870)	(908)
Total Operating Expenditure	67,090	73,381	74,652	79,622	75,707	81,233
Operating Surplus	6,726	9,998	5,068	10,243	5,068	10,292
Other Revaluation Adjustments	514	0	0	0	0	
Surplus Before Taxation	7,240	9,998	5,068	10,243	5,068	10,292
Taxation	(18)	96	3	0	3	16
SURPLUS FOR THE YEAR	7,258	9,902	5,065	10,243	5,065	10,276

This statement contains prospective financial information and should be read in conjunction with the accompanying Statement of Accounting Policies, Forecasting Assumptions and Notes to the Financial Statements.

STATEMENT OF MOVEMENT IN EQUITY

(thousands)	Council 2004 Actual	Council 2005 Ten Year	Council 2006 Ten Year	Council 2006 Annual Plan	Group 2006 Ten Year	Group 2006 Annual Plan
Opening Equity	536,568	541,867	551,769	546,428	551,807	546,428
Net Surplus for the Period	7,258	9,902	5,065	10,243	5,065	10,276
Revaluation Changes	(1,015)	0	0	0	0	0
CLOSING EQUITY	542,811	551,769	556,834	556,671	556,872	556,704

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STATEMENT OF FINANCIAL POSITION

(thousands)	Council 2004 Actual	Council 2005 Ten Year	Council 2006 Ten Year	Council 2006 Annual Plan	Group 2006 Ten Year	Group 2006 Annual Plan
CURRENT ASSETS						
Bank and Short Term Investments	18,989	6,950	5,689	5,564	6,115	5,981
Stock on Hand	1,112	1,263	1,263	1,112	1,263	1,112
Sundry Debtors	13,131	6,748	6,748	6,726	7,248	6,960
Prepayments	217	212	212	217	212	217
Provision for Taxation	18	0	0	0	0	0
Properties Intended for resale	661	0	0	0	0	0
Capital Work in Progress	12,116	6,551	6,551	12,795	6,551	12,795
TOTAL CURRENT ASSETS	46,244	21,724	20,463	26,414	21,389	27,065
Less CURRENT LIABILITIES						
Sundry Creditors	9,906	9,626	9,626	9,906	9,768	10,063
Accrued Expenses	5,492	4,548	4,548	5,492	4,548	5,492
Current Portion of Term Liabilities	7,501	9,211	10,614	10,614	10,614	10,614
TOTAL CURRENT LIABILITIES	22,899	23,385	24,788	26,012	24,930	26,169
WORKING CAPITAL	23,345	(1,661)	(4,325)	402	(3,541)	896
NON-CURRENT ASSETS						
Investments	6,411	896	813	1,359	813	859
Properties Intended for Resale	1,638	1,173	1,173	1,638	1,173	1,638
Deferred Taxation	0	0	0	0	36	6
Fixed Assets	558,338	622,445	638,378	634,292	638,846	634,737
						0
TOTAL NON-CURRENT ASSETS	566,387	624,514	640,364	637,289	640,868	637,240
Less NON-CURRENT LIABILITIES						
Less Employee Gratuities	1,454	1,542	1,542	1,454	1,542	1,454
TOTAL NET ASSETS	542,811	551,769	556,834	556,671	556,872	556,704
Represented By:						
						0
RATEPAYERS EQUITY						
General Reserve	358,083	391,639	400,899	409,950	400,945	409,983
Self-funding Reserves	(3,668)	(25,119)	(28,056)	(37,240)	(28,056)	(37,240)
Council Created Reserves	36	41	41	36	41	36
Restricted Reserves	885	308	49	1,039	49	1,039
Sinking Fund Reserves	4,589	999	0	0		0
Share Of Airport Reserves	8	8	8	8		8
Asset Revaluation Reserve	182,878	183,893	183,893	182,878	183,893	182,878
						0
TOTAL RATEPAYERS EQUITY	542,811	551,769	556,834	556,671	556,872	556,704

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STATEMENT OF CASHFLOW

(thousands)	Council	Council	Council	Council	Group	Group
	2004 Actual	2005 Ten Year	2006 Ten Year	2006 Annual Plan	2006 Ten Year	2006 Annual Plan
Cash flows from Operating Activities:						
Cash was provided from:						
Rates	44,472	45,665	48,558	48,328	50,515	48,328
General Revenue	25,890	34,234	28,439	31,865	27,518	33,516
Interest on Investments	1,217	607	491	72	518	89
Dividends	0	290	9	0		0
	71,579	80,796	77,497	80,265	78,551	81,933
Cash was applied to:						
Payments to Employees & Councillors	22,361	24,368	24,538	25,512	24,656	25,630
Other Payments	23,274	28,137	27,772	29,590	28,662	31,025
Taxation Payments	0	96	3	0	3	16
Net Movement in Agencies	(844)	0	0	0	0	0
Interest on Public Debt	3,347	4,598	5,734	5,256	5,819	5,285
Net Goods and Services Tax Paid	683	0	0	0	0	0
	48,821	57,199	58,047	60,358	59,140	61,956
						0
Net Cash Flows From Operating Activities	22,758	23,597	19,450	19,907	19,411	19,977
Cash flows from Investing Activities:						
Cash was provided from:						
Proceeds from Sale of Fixed Assets	228	737	2,022	299	2,022	299
Net Movement in Investments	(3,033)	(3,072)	700	1,631	780	1,631
Release of Sinking Funds	317	4,124	1,122	1,127	1,122	1,127
Collections on Advances	1,058	11,596	88	151	88	151
	(1,430)	13,385	3,932	3,208	4,012	3,208
Cash was applied to:						
Purchase of Fixed Assets	26,033	65,796	32,778	62,033	33,120	62,033
Loan Advances made	1,460	5	5	5	5	5
Sinking Fund Contributions	732	538	123	123	123	123
	28,225	66,339	32,906	62,161	33,248	62,161
						0
Net Cash Used In Investing Activities	(29,655)	(52,954)	(28,974)	(58,953)	(29,236)	(58,953)
Cash flows from Financing Activities:						
Cash was provided from:						
Loans Raised	15,500	33,286	18,735	33,924	18,735	33,924
Cash was applied to:						
Repayment of Public Debt	9,010	7,501	9,211	9,211	9,211	9,211
Net Cash Used In Financing Activities	6,490	25,785	9,524	24,713	9,524	24,713
Net Increase (Decrease) in Cash	(407)	(3,572)	0	(14,333)	(301)	(14,263)
Opening Cash Brought Forward	1,314	8,642	5,070	19,897	5,797	20,244
CLOSING CASH CARRIED FORWARD	907	5,070	5,070	5,564	5,496	5,981

This statement contains prospective financial information and should be read in conjunction with the accompanying Statement of Accounting Policies, Forecasting Assumptions and Notes to the Financial Statements.

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Rotorua District Council is a territorial local authority as defined in the Second Schedule of the Local Government Act 2002.

The Rotorua District Council Group consists of Rotorua District Council and Rotorua Regional Airport Ltd (100% owned), a company registered under the Companies Act 1993.

The financial information presented in the Annual Plan has been prepared in accordance with section 93 of the Local Government Act 2002 which includes the requirement to comply with generally accepted accounting practice.

Basis of Consolidation

Consolidated Statement of Financial Performance, Statement of Cash Flow, Statement of Movement in Equity and the Statement of Financial Position have been prepared in accordance with General Accepted Accounting Practices – Financial Reporting Standard (FRS-36 and FRS-37).

All significant inter-group transactions arising from trading between the various activities of the council have been eliminated on consolidation.

Unless shown separately the financial statements and notes refer to both the Council and Group accounts.

Goodwill

Goodwill on consolidation is amortised on a straight line basis over 20 years.

The goodwill expensed is included in the airport expenditure line in the group statement of financial performance.

Measurement Base

The measurement base adopted is that of historical cost, modified by the revaluation of certain assets.

Rounding

The amounts in the financial statements and notes are rounded to the nearest thousand unless otherwise stated.

Specific Accounting Policies

Basis of Preparation of the Financial Statements

The Annual Plan for the Council and its group includes a Statement of Financial Performance, a Statement of Movements in Equity, a Statement of Financial Position, a Statement of Cashflow. Consolidated financial statements of the group comprising the Rotorua District Council and its subsidiary Rotorua Regional Airport Ltd, have been included in this Plan.

In order to meet its obligations of public accountability, the Council has included for each significant activity, a separate Statement of Cost of Service which shows costs of providing the service less all directly related revenue.

All significant inter-activity transactions arising on trading between various activities of the Council are eliminated from the Statement of Financial Performance to ensure that this statement reflects only those transactions conducted with parties external to the Council.

Overhead/Support Services Allocation

The major types of expenditure classed as support services are civic centre operating, payroll/personnel, information technology and information management, administration costs, treasury, accounting costs, records, asset management overheads, fleet, land information services, waterworks overheads, business units, laboratory and Graphic Solutions. The net costs of support services are charged to significant activities on the appropriation basis of either floor space, staff time, direct use when available, share of estimated rates, volume of transactions used, volume of records used, level of activity areas supported, and percentage of service utilised.

Goods and Services Tax

The financial statements are prepared on a Goods and Services Tax (GST) exclusive basis, except for accounts receivable and accounts payable, which are stated as GST inclusive. The balance outstanding at balance date is shown as accounts receivable or accounts payable as the case may be.

Budgets

The budgeted figures are those approved by the Council and are subject to a period of consultation with the public as part of the Annual Plan process. The budgeted figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of the financial statements.

Funding Requirements Pooled Across Multiple Activities

Council has established through its Funding Policy an appropriate level of user-pays for each activity. These user-pays charges are collected by way of separate rates, fees and charges.

After deducting the user-pays charges, the remaining funding requirements for all activities are pooled. This total cost is then recovered by way of general rates charged to all ratepayers. In this way all ratepayers contribute towards the costs of the activities that provide a general public benefit.

Revenue Recognition

Rates revenue is recognised as income when levied. Grants are recognised as income when eligibility has been established by the grantor agency and the work has been performed and/or conditions met. Vested assets are recognised when control over the asset is obtained. Parking fines are recognised on a cash basis when payment is received.

Donated Services Recognition

The council benefits from the voluntary services of many Rotorua citizens in the delivery of its activities and services. Due to the difficulty in determining the value of these donated services with sufficient reliability, donated services are not recognised in these financial statements.

Rating

The Rotorua District Council has a policy of rating its own properties. The effect of this policy is eliminated from the Statement of Financial Performance and the Statement of Cashflows.

Internal Property Rental

Internal property rents are charged to each significant activity where appropriate. This charge is based on floor area occupied, to cover the actual costs of each building.

Interest Allocation

Council allocates the net cost of interest, being interest expense less interest income, to its various activities:

- a) Interest is credited to or allocated to self-funding activities based on the average annual balance of the self-funding account according to whether the balances are in funds or overdrawn respectively.
- b) The balance of interest is allocated to other significant activities on the basis of the book value of fixed assets employed in the activity.

Taxation

The Council uses the liability method of accounting for deferred taxation and applies this on a comprehensive basis. Future tax benefits attributable to tax losses or timing differences are only recognised when there is virtual certainty of realisation.

Income tax expense (if any) is charged in the Statement of Financial Performance in respect of the current year's surplus after allowing for permanent differences.

Accounts Receivable

Accounts Receivable are shown at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off against the provision for doubtful debts accounts in the period in which it is determined that the debts are uncollectible.

Receivables in respect of parking fines are not recognised in the statement of financial position due to the uncertainty of collection.

Inventories

Stocks for own use and stocks for resale are valued at the lower of net realisable value or cost on a 'first in first out' (FIFO) basis.

Properties Intended for Resale

Properties intended for resale as at 30 June 2003 are recorded at the lower of cost and net realisable value.

Statement of Cashflows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which Council invests as part of its day to day cash management. *Operating activities* include cash received from all income sources of the group and record cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise activities that change the equity and debt capital structure of the Council and group.

Agency transactions (for example, the collection of regional council rates) are recognised as receipts and payments in the statement of cash flows given that they flow through the Council's main bank account, and are included as part of operating activity.

Leases

Finance Leases:

Leases which effectively transfer to the lessee substantially all the risks and benefits incidental to ownership of the lease item are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and corresponding lease liabilities are recognised in the statement of financial position. The leased assets are depreciated over the period the Council is expected to benefit from their use.

Operating Leases:

Council has equipment on operating leases, where the lessors effectively retain substantially all risks and benefits of ownership of the leased item. The operating lease payments are charged as expenses in the periods in which they are incurred.

Investments

Bank investments are stated at cost.

Investments in shares are stated at the lower of cost or estimated realisable value.

Interest Income is recognised in the Statement of Financial Performance on an accrual basis. Dividend income is recognised when the dividend is declared.

The Council has had 100% ownership of the Rotorua Regional Airport Ltd since 31 July 2002.

The Council has included \$126,000 in investments for Council's estimated share in a council controlled shared services organisation yet to be established for operating a valuation database.

Fixed Assets

Valuation:

Land and buildings are recorded at fair value as at 1 July 2002. Quotable Value New Zealand Ltd has certified that these valuations are appropriate for financial reporting purposes.

Asset additions since 1 July 2002 are valued at historic cost. The fair value of land and buildings is reviewed at three yearly intervals.

Infrastructural assets (roading network, bridges, drains, water and sewerage reticulation systems) have been valued by Council's engineers at replacement cost. An estimate for accumulated depreciation has then been deducted to give a depreciated replacement value as at 1 July 2002. Road reserves have been valued on an average of the district's land value adjusted for restrictions on the land and its existing use. The basis of these in-house valuations has been certified as correct by an independent registered valuer. All capital

expenditure on these assets since 1 July 2002 has been capitalised at historic cost. The value of all of Council's infrastructural assets will be revised at three yearly intervals.

The library collection was valued at estimated historic cost as at 1 July 2002 as estimated by Council's library staff. The basis of these in-house valuations have been certified as correct by an independent registered valuer. All library purchases since 1 July 2002 have been capitalised at historical cost. The value of the library collection is revised at three yearly intervals.

The collections of the Rotorua Museum of Art & History are valued at current market value as at 30 June 1992 by Gow, Landsford Fine Art Valuers and Peter Webb Galleries Limited, estate and fine art auctioneers and valuers. Any additions since then have been capitalised at historic cost.

Vested infrastructural assets have been valued based on the actual quantities of infrastructural components vested at the current "in the ground" cost of providing identical services. All other revenue is recognised when it is due and receivable.

Airport land, buildings and runway have been valued as at the date of purchase (31 July 2002) by registered valuers Cleghorn Gillespie Jensen & Associates at fair value in accordance with FRS-36. All assets since have been capitalised at historic cost.

All other fixed assets are valued at cost except where historic cost records were not available, in which case Council has estimated the cost.

Depreciation is provided on all fixed assets with certain exceptions. The exceptions are:

Land is not depreciated.

Roading, wastewater reticulation, stormwater systems and water reticulation assets are depreciated as noted below. A number of the components of the roading network such as excavation, sub base materials and compaction are not depreciated as these assets have an infinite life. Signs and markings are not depreciated as these assets are maintained to the same level.

The useful lives of the Rotorua Museum of Art & History collections and the library reference collection are considered to be extremely long. Therefore, due to its insignificance, no depreciation has been brought to charge.

All other assets are depreciated on a straight line basis at rates that will write off their cost or valuation over their expected useful economic lives.

Vehicles are depreciated on the basis of diminishing value and at a rate of 20% calculated to allocate the motor vehicles cost over their estimated useful lives.

The expected lives of major classes of assets are:

General	Years
Bathroom building	40
Buildings (other)	50
Plant and Equipment	10
Office Equipment	5
Furniture and Fittings	10 to 20
Computer Systems	3 to 5
Library Books (excl Reference)	2 to 15
Parking	10 to 50
Landfill Improvements	5 to 50
Wastewater Reticulation	
Manholes	70 to 100
Treatment Plant	10 to 100
Pump Stations	10 to 50
Pipes	70
Water Reticulation	
Pipes	45 to 90
Motors/Pumps	20 to 25
Reservoirs and other	
Water-Retaining Structures	60 to 80
Meters	15 to 100
Parks	
Street and Outdoor Furniture	1 to 20
Street Signals	15
Fencing and Related Structures	40
Playgrounds	25
Jetties and Related Structures	15 to 30
Irrigation Pipes and Sprinklers	6 to 50
Park roads, paths	10 to 100
Kerbs	100
Bridges	50 to 100
Top surface (seal)	8 to 20
Pavement (basecourse)	25 to 80
Drainage	100
Shoulders/Feathers	25 to 80
Culverts	100
Footpaths (concrete)	100
Footpaths (bitumen)	10 to 40
Stormwater systems	
Pipes	70 to 100
Manholes, Cesspits	70 to 100
Service connections and outlets	70 to 100
Airport	
Runways, Taxiways and Aprons	50
Runway Reseal	12.5

Employee Entitlements

A provision is made in respect of the Council's liability for annual leave, long service leave, and retirement gratuities.

Wages and salaries, annual leave and other entitlements that are expected to be settled within twelve months of reporting date are measured at nominal values on actual entitlement basis at current rate of pay.

Entitlements that are payable beyond twelve months, such as long service leave, resigning and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A discount rate of 5.5% (2001/2002 6.5%), and an inflation factor of 2.5% (2001/2002 2.6%) were used. The discount rate is based on the weighted average of Government interest rates for stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Financial Instruments

All financial instrument arrangements except guarantees have been included in the Statement of Financial Position using the concepts of accrual accounting. They have been included at their fair value. These instruments include bank accounts, accounts receivable and payable, cash investments, equity investments and long term debt. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance.

Landfill Post-Closure Costs

The Council, as operator of the Rotorua Landfill, has a legal obligation to apply for resource consents when the landfill, or landfill stages, reach the end of their operating life and are to be closed. These resource consents will set out the closure requirements and the requirements for ongoing maintenance and monitoring services at the landfill site after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises.

The provision is measured based on the present value of future cash flows expected to be incurred, taking into account future events including known changes to legal requirements and known improvements in technology. The provision includes all costs associated with landfill post-closure including final cover application and vegetation; incremental drainage control features; completing facilities for leachate collection and monitoring; completing facilities for water quality monitoring; completing facilities for monitoring and recovery of gas.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits or if they are incurred to enable future economic benefits to be obtained. The capitalised landfill asset is depreciated over the life of the landfill based on capacity used.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the Council.

Ratepayers' Equity

Ratepayers' Equity is the community's interest in the Council as measured by the value of the total assets less liabilities. Ratepayers' Equity is disaggregated and classified into a number of reserves to enable a clearer identification of the specific uses Council makes of its accumulated surpluses.

Reserves

Council Created Reserves:

Council Created Reserves are that part of the accumulated surpluses established by Council resolution. Council may alter Council Created Reserves without reference to any third party or the courts. Transfers to and from these reserves are at the discretion of Council.

Restricted Reserves:

Restricted Reserves are those reserves subject to specific conditions accepted as binding by the Council, and which may not be revised by Council without reference to the courts or a third party. Transfers from Restricted Reserves may be made only for certain specified purposes or if certain specified conditions are met.

Sinking Fund Reserves:

Prior to 1 July 1998, when the Local Government Act was amended, funds were required to be set aside each year to meet future repayments of loans or commitments. These funds, described as sinking funds, were administered by an independent body of Sinking Fund Commissioners appointed by the Council. These funds are included in the Statement of Financial Position, and any associated interest income is included in the Statement of Financial Performance.

Self-funding Reserves:

Certain activities are undertaken by Council on the basis that the activities generate enough revenue over time to cover the cost of their operation. The net surplus or deficit held on behalf of these activities has been included in the Statement of Financial Position as Self-funding Reserves.

Asset Revaluation Reserves

Revaluations are credited or debited to an asset revaluation reserve for that class of asset. When this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Financial Performance.

Nature of Prospective Information

The information provided in this Annual Plan is of a prospective nature. This means that it is based on the forecasting of future events and it is expected that actual results may vary from the estimates. In making these forecasts, Council has made a number of significant assumptions. The purpose of this prospective financial information is for preparing the 2005/06 Annual Plan for Council and amendments to The Ten Year Plan, and may not be appropriate for other purposes. These assumptions are set out in detail within The Ten Year Plan and are summarised in the following section for this Annual Plan.

The Annual Plan budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Council for the preparation of the financial statements.

The budget for 2005/06 is a forecast based on assumptions which Council reasonably expects to occur. Any budgets for subsequent years to 2005/06 are projections based on more hypothetical but realistic assumptions.

Changes in Accounting Policies

All Accounting Policies have been applied on a basis consistent with prior years.

FORECASTING ASSUMPTIONS

Introduction

In preparing the Annual Plan budgets a number of assumptions and predictions have been required. These are fundamental to enable interpretation by readers of projected financial statements etc.

The Annual Plan has been prepared on the same basis as The Ten Year Plan (Long Term Council Community Plan).

The sources of those assumptions are:

- Legislative requirements
- The Council's Revenue and Financing Policy
- Relevant financial reporting standards issued by the Institute of Chartered Accounts of New Zealand
- Approved asset management plans
- Industry best practice and norms
- Current practice or convention

The key assumptions made in preparing the Council's budget for the 2005/06 financial period and forecasts for the Annual Plan were adopted on 28 February 2005 and are as follows:

General Assumptions

- All Budgets are net of GST (except for Pensioner Housing)
- All Budgets are on an accrual basis.
- All figures are in 2005/2006 dollars.
- Overhead costs are apportioned to operating projects on the basis of the appropriate method that fairly estimates internal labour and plant resources used in the delivery of that project.
- No allowance has been made for one-off redundancy and other costs that may arise from any change management or competitive tendering initiatives.
- There will be no significant changes to Council's operating environment.
- Council has in place adequate risk management procedures.
- Where there is a signed rental agreement applying to the year, the agreed ground lease rental is included. For all others an estimate has been made based on current market conditions.
- No new responsibilities will fall upon local authorities as a result of Central Government promulgated laws or requirements.

Service Level Assumptions

- Budgets are based on maintaining existing level of service. All significant changes in service from The Ten Year Plan have been highlighted.

- Where delivery of service is linked to contract or lease arrangements this will continue on a similar basis unless otherwise allowed for.
- Services currently delivered by Council's business unit (Castlecorp) will continue to be delivered in this manner.
- Services will continue to be delivered through the existing Council structure.
- Currently delegated functions will remain at existing levels of service and funding.
- Delivery of service is based on current best practice and methodology, future efficiencies or increased compliance requirements are not provided for unless otherwise indicated.

Liabilities and Investments Assumptions

- Interest is treated as a corporate expense and allocated to cost centres based on asset holdings as at 30 June 2004.
- Reserves are charged interest on their average balance held/borrowed over the year.
- Dividends are based on projections supplied by Council Organisations and Council-Controlled Organisations in which the Council has an equity investment. It is assumed the Council will maintain its existing investments.
- The Council will continue to earn interest on investments with third parties.
- The cost of borrowing on new debt is 6.5 percent.
- All borrowings will be in accordance with the parameters detailed in the Treasury Policy.
- There will be no significant unexpected asset loss or failure.
- Asset management plans are accurate and up to date.

Funding Assumptions

- The Council has set its projected operating revenue (including rates) at a level sufficient to meet the projected operating expenditure, except where the Council has resolved that it is financially prudent not to do so.
- The total rates split between sectors, and the basis for both general and targeted rates, are all determined by the Revenue and Financing Policy.
- The application and level of user charges are all determined by the Revenue and Financing Policy.

Capital

- Renewal/replacement projects are supported by an up to date asset management plan or on the IT computer list or property manager's list. Only minor items such as office furniture are not supported by an asset management plan.

- Allowance has been made for specific capital expansion developments that are required as a result of growth in population.
- Maintenance and additional running costs resulting from any new developments/major capital upgrades are allowed for in both the first year of operation and latter years.
- No allowance has been made for the depreciation implication of infrastructural and other asset revaluations that are carried out on a periodic/cyclic basis.
- Any network asset related work that is a level below the categories in the asset management plans, is maintenance.
- Resource consents will be acquired as required.

2005/06 Assumptions Risk Assessment

Council needs to establish objectively which planning assumptions involve a high level of uncertainty and to quantify that uncertainty. To that end, for all assumptions, Council needs to identify the:

- probability of occurrence of the risk;
- financial significance of the risk; and
- controllability of the risk by the Council.

There needs to be an analysis of the risks associated with the assumptions. A matrix can then be developed that rates the assumption probability, significance and controllability. This would then identify those assumptions with the highest risk. The assumptions below will be more rigorously analysed when we update The Ten Year Plan during 2005/06.

(a) Probability

For each assumption there needs to be a view on the likelihood of the assumption either occurring or not occurring as the case may be. A simple rating between low, medium or high is used.

(b) Financial Significance

There will be some assumptions that have high final impacts which need to be identified and rated.

(c) Controllability

Some assumptions and the assessment of risk are controllable by Council i.e. internal. Whilst others are controllable by external organisations and agencies. This will normally imply a higher level of risk than internally controllable assumptions

Assumption	Risk Categories		
	Uncertainty	Financial Significance	Controllability
1. Growth	Med	Medium	External
2. Eastern sewerage schemes ¹	High	High	External/Internal
3. Rotorua Regional Airport development ²	High	High	External/Internal
4. Energy Events Centre	Medium	High	External/Internal
5. Debt and interest rates	Medium	Medium	External
6. Service delivery methods	Low	Medium	Internal
7. Service levels	High	Medium	Internal
8. Economic outlook	Low	Medium	External
9. Asset management plans	Low	Medium	Internal
10. Waste management	Medium	Medium	External
11. Construction costs ³	High	High	Internal/External
12. Lake water quality ⁴	High	High	Internal/External
13. Economic outlook	Low	Low	External

There are four assumptions that have a high degree of uncertainty which are listed below:

¹ **Eastern sewerage schemes**

There is a range of funding sources for these new schemes, including Ministry of Health, who will provide 50% of the funding.

² **Rotorua Regional Airport development**

Future development is dependent on economic demand analysis providing certainty of the market for trans-Tasman services and that the necessary District Plan changes and designations are available for the airport development.

³ **Construction costs**

Much of the expenditure Council incurs is through the contracting/construction sector. Costs have increased significantly over the past 12 to 18 months and look set to do so for a few years. The December CPI was 2.7% but the construction index was closer to 8%. The CPI is therefore not a good indicator of what has happened to much of the costs that affect Council. A 4.98% rate increase has been proposed in this Annual Plan which is substantially less than the construction index. However, Council believes that through smart purchasing and efficient service delivery, this increase is sustainable.

4 Lake water quality

The lakes of Rotorua are vital to the social, cultural, environmental and economic wellbeing of the district, wider Bay of Plenty and New Zealand. However, there are serious water quality problems with some of the lakes. Considerable understanding of science has been developed over the last three to five years. There is a range of leading edge solutions that will need to be implemented very soon. The likelihood of their success is uncertain at this stage. In addition, funding of the solutions is beyond the capability of the district's financial resources. Central Government support is critical.

Budgeting Margin of Error

In reading the 10 year budgets it is important to understand the level of accuracy of the financial information within the projections.

It is reasonable to expect that our estimates should be more accurate early in the life of our 10 year financial strategy.

Council does enough analysis, design and evaluation to provide estimates for capital projects within + 10% for the year ahead, + 20% for years 2 and 3, and + 30% for years 4 to 10.

This does not imply a 30% contingency or significant "fat". Nor is it deliberately 30% underestimated to make our long term financial projections look affordable. It is an acknowledgement that our estimate is the best available but realistically it could be + 30% from the final costs.

It must also be remembered that although estimates, project by project, or line item by line item, can individually be +30%, the reality is that some will prove to be +30% and other -30%, and to some extent the variations will cancel each other out.



NOTES TO FINANCIAL STATEMENTS

(a) Self Funding Reserve

Self Funding Reserves are reserves established at Council's will for activities undertaken by Council on the basis that the activities will generate enough revenue over time to cover the cost of their operation. The reserve balance represents accumulated balances to date of such activities.

	Closing Balance	Closing Balance	Closing Balance	Closing Balance
	Actual	Ten Year	Ten Year	Annual Plan
(thousands)	2004	2005	2006	2006
Pensioner Housing	228	(1,054)	(1,162)	(1,322)
Events Centre	0	0	0	(343)
Recreation Program	0	0	0	182
Airport	0	(14,197)	(15,828)	(16,477)
Wastewater	(1,001)	(3,263)	(2,867)	(1,931)
Landfill	(740)	375	679	326
Water	(1,667)	(3,728)	(4,910)	(4,290)
Refuse Collection	147	165	181	236
Eastern Trunk Line	(630)	(3,156)	(2,473)	(13,195)
Rural Waste Water	(5)	(261)	(1,676)	(426)
Total Self Funding Reserves	(3,668)	(25,119)	(28,056)	(37,240)

(b) Council Created Reserve

Council Created Reserves are established by Council Resolution for the purposes stated below. Transfers to and from these reserves is at the discretion of Council.

	Closing Balance	Closing Balance	Closing Balance	Closing Balance
	Actual	Ten Year	Ten Year	Annual Plan
(thousands)	2004	2005	2006	2006
Reporoa Domain	10	13	12	9
Waikite Domain	26	28	29	27
Total Council Created Reserves	36	41	41	36

(c) Restricted Reserve

Restricted Reserves are the subject of specific conditions set either by legislation, trust or bequests and the purpose may not be changed without reference to the courts by a third party.

	Closing Balance	Closing Balance	Closing Balance	Closing Balance
	Actual	Ten Year	Ten Year	Annual Plan
(thousands)	2004	2005	2006	2006
Reserves Development	63	8	31	589
Hillary Commission Reserve	7	0	0	0
Creative NZ Reserve	4	0	0	0
Library Bequest	300	300	0	0
Property Development	511	0	18	450
Total Restricted Reserves	885	308	49	1,039

Restrictions

Reserve Development: Section 108 of the Resource Management Act 1991 requires funds to be set aside for the development of reserves.

Creative NZ Reserve: Creative Communities New Zealand Scheme funds available for promoting the arts.

Library Bequest: Section 31 of the Local Legislation Act 1937 states the fund is an endowment for the maintenance and benefit of a public library in the Borough of Rotorua.

Property Development: Sections 561,562,572 of the Local Government Act 1974 requires various sales of properties to be credited to a Housing and Property Account. Funds are used for Property Development. Act now superseded, closing reserve by 2007.