

ASSUMPTIONS

Introduction

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

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 2004/05 financial period and forecasts for the Long Term Council Community Plan 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 2004/2005 dollars. No allowance is made for inflation when projecting costs from 2004/05 into the later Budget years.
- The expenditure shown for programmes and projects reflects only those programmes and projects that the Council has approved through the Long Term Council Community Plan progress. Costs are expressed as gross costs before user charges and subsidies.
- 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.
- Organisational costs remain constant over the 10-year period except for reallocations between programmes and projects, and expected changes in costs such as electricity.
- No allowance has been made for one-off redundancy and other costs that may arise from any change management or competitive tendering initiatives.
- Levels of cooperation and support within the community, including Te Arawa, will be maintained/enhanced.

- There will be no significant changes to Council's operating environment, examples would include, but not be restricted to: employment environment, major changes or shifts in information technology; natural disasters; effects of terrorist activities; major economic upheavals, health epidemics, and extraordinary litigation or grievance claims.
- 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.
- Representation and governance structures continue in their present form for the ten year period i.e. no change to the number or type of units of local government in the Bay of Plenty.
- No new responsibilities will fall upon local authorities as a result of Central Government promulgated laws or requirements.

Service Level Assumptions

- No allowance is made for standard growth when projecting the operating costs for each activity from 2004/05 into later years. The increased operating costs associated with growth are funded from growth in the ratepayer base. Any exceptions are noted separately.
- Budgets are based on maintaining existing level of service and mode of service delivery unless otherwise indicated.
- 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 (Castlecop) 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 out to cost centres based on asset holdings as at 30/06/2003.
- 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 7 percent.
- All liabilities, other than borrowings, are assumed to remain constant for the 10-year period.
- All borrowings are assumed to be for the full term of the loan.
- 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.
- The Government will continue to pay Transfund subsidy at current levels. The amount is determined by the level of expenditure that attracts Transfund subsidy.
- It is assumed that petrol tax will continue to exist in future years and the level forecast remains constant.
- Anticipated external funding and subsidy/grant levels will be achieved.
- Projected demand and ability to pay in relation to user fees/admissions will be achieved.

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.

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.