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Committee Policy, Finance and Strategy Committee
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Utility Services Division - Greater Wellington Water: Proposed Business Plan 2003-2013

1. Purpose

To seek approval of the proposed Business Plan for Greater Wellington Water, including any amendments approved by the Committee.

2. Overview

The Operating Plans, which have been provided separately, and will be tabled at the meeting on 4 March 2003, provide considerable strategic, operational and financial detail of our water supply activity. Those plans break out our operation into the way we manage the activity.

This overview briefly runs through the issues facing us from strategic, operational and financial points of view. Attached are financial summaries and debt impacts.

2.1 Key Features

Financial

- It is proposed that the levy for the 2003/4 year (and beyond) remain at the current level.
- Total revenue is pretty much line ball for actual 2001/2, forecast 2002/3 and the two budgets - 2002/3 and 2003/4. The favourable difference in external income between last year's and this year's budgets relates to the recognition of a \$200,000 contribution from Transit New Zealand for pipe moving activity at Paremata Bridge. In addition, we have negotiated an "easement" with UnitedNetworks, whereby they use a disused main from Thorndon to Petone and pay us \$80,000 per annum for the privilege.
- Total expenditure, budget to budget, shows a \$288,000 increase. However, within that there are a considerable number of ups and downs.

- ◆ *Intradivisional Internal Charges*
The main increase here is laboratory costs, as the revised Drinking-Water Standard requirements necessitate more testing and of a random nature, which incurs higher costs.

- ◆ *Interdivisional Internal Charges*
The main difference here between 2002/3 and 2003/4 is removal of the annual \$50,000 contribution to the Environment Division's programme for environmental education (see comment later).

- ◆ *Other Direct Costs*

Main changes are:

- Base personnel Up by \$230,000 (one person increase in Operations)
- Insurance and rates Up by \$104,000
- We have included a further \$100,000 provision in the power expenditure budget for "green power" costs relating to the potential use of Wairarapa wind power.
- Reduction in water conservation advertising because of "corporate" direct marketing expenditure.

- ◆ *Indirect Expenditure*

Financial costs Down by \$477,000, reflecting anticipated lower debt levels and the impact of the 0.5 percent internal interest rate reduction.

Depreciation Up by \$281,000.

Loss on sale Up by \$234,000 because of the impact of a budgeted \$248,000 infrastructure asset write-off.

Corporate overhead Up by \$77,000, reflecting the increase in marketing and communications charges of \$130,000, offset by a reduction in other miscellaneous corporate charges overheads, resulting from the reduced size of Greater Wellington Water.

- Capital expenditure programme changes in the programme for 2003/4 to 2009/10 is a \$1.5 million increase, compared to the programme produced for last year's budgeting process. The main changes in the new 10 year plan are as follows (this includes a further 3 years capital expenditure).

Additions

	\$m	Start Year
Karori Pumping Station relocation	1.3	2003/04
Haywards Reservoir replacement	6.0	2005/06
Wainuiomata off-river storage	3.0	2007/08
Hutt River intake	5.0	2008/09
Treatment plant refurbishment in latter years	0.9	2009/10

	16.2	

Deletions

	\$m
Moera aquifer development	1.6
Silverstream diversion	2.5

	4.1

Deferrals

	\$m
Wainuiomata Terminal Reservoir	6.0

- Debt Position. Based upon the aforementioned 2003/13 budget numbers, debt reduces to \$45.2 million in 2012/3.

2.2 Strategic Operational Issues

- As per the attached paper, we are proposing for your consideration that a further \$250,000 per annum be added to the self-insurance fund from 2003/4 onwards. The impact on debt is shown as attached.

The paper also suggests that we transfer our chemical reserve, expected to be \$600,000 by June 2003, to the insurance fund.

- From an operational perspective, the only issue of particular note is that the Ministry of Health *Public Health Grading of Community Drinking-Water Supplies* (draft 9 November 2002) identifies proposed and existing water supply qualifications that should be obtained by staff involved in treatment within two years (2005), to ensure current drinking water gradings are maintained. In addition, relevant qualifications for staff involved on the reticulation system should be achieved within four years - 2007. If this becomes a requirement it will involve considerable time and expense for staff to undertake the training.
- With the \$130,000 increased corporate charges for social marketing and website development, I have had a hard look at our other communications and marketing costs to see if we could reduce some of those costs. As a result, I have made the following changes to our current budget level of expenditure.

- ◆ Reduced by \$60,000 our summer water conservation advertising (with the hope that Corporate Communications will apply some funds to that end).
- ◆ Stop production of the glossy version of the annual report and simply produce the pure financial information along with compliance material. This will save \$15,000.
- ◆ Withdraw the \$50,000 we pay to Environment Division which assists their *'Take Action for Water'* programme.

We will retain some emergency advertising funds (\$10,000) to use if a serious summer drought occurs. Therefore the water communications budget will then consist of:

	\$
Water conservation (for summer drought)	10,000
Production of annual report	5,000
Brochures/displays at treatment plants, photography etc.	<u>30,000</u>
	\$45,000
Corporate Communication	203,000
	<u>\$248,000</u>

- The Engineering Consultancy Group continues to perform satisfactorily and we continue to budget for about \$300,000 per annum from Wellington City Council. As we know, that may change at a moment's notice but for the time being it seems reasonable to assume that it should continue.
- The Laboratory is now installed at Oxford Terrace and performance has been steadily improving.
- In terms of "sustainability projects" we have made provision for the following:
 - ◆ "Green power" - \$100,000 per annum
 - ◆ Investigative/design development of the Wainuiomata Lower Dam for biodiversity purposes - \$50,000 in 2003/4.
 - ◆ No provision has been made for providing the Region's population with emergency bottles of water or any extra water conservation expenditure other than what may be regarded as Greater Wellington Water's contribution through Communications' cost allocation.

2.3 Years 2005 – 2013

On the basis of future years being budgeted in today's dollars we see no need to increase the levy taking account of all known costs as of today.

3. Changes to the Proposed Business Plan Recommended by Officers

Nil.

4. Recommendations

That the Committee recommend to Council that it:

- (1) receive the report and note its contents.*
- (2) note that officers are not recommending any changes to the proposed business plan for Greater Wellington Water.*
- (3) approve the proposed business plan for Greater Wellington Water (including any amendments approved by the Committee) for inclusion in the Council's Proposed Long-term Council Community Plan 2003-2013 (incorporating the Council's 2003/04 Annual Plan).*

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Attachments:

1. Water Supply Operational Costs
2. Insurance Report
3. Projected Debt Scenarios Given differing Levy Levels.