

Public Excluded

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Report to the Utility Services Committee
from David Benham, Divisional Manager, Utility Services

Water Group : Proposed Operating Plans 1999-2007

1. Purpose

To provide a more detailed analysis of the Water Group's Operating Plans, some aspects of which are commercially sensitive.

2. Exclusion of the Public

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information Act 1987 are:

That the public conduct of the whole or relevant part of the meeting would be likely to result in the disclosure of information for which good reasons for withholding exists, i.e. to carry on commercial negotiations.

3. Background

The Operating Plans in Part D are quite detailed and are designed as a management tool and may not be particularly friendly from a Committee point of view. In addition the restructuring that has occurred has made past comparisons difficult. Hence an overall water overview is provided here.

4. **Water Management Structure**

The way we manage the water operations, with the senior management responsibilities, is as follows:

Operations	<ul style="list-style-type: none"> • Production • Distribution • Network (Wellington City Water) 	Dan Roberts
Strategy and Asset		Murray Kennedy
Engineering Consultancy		John Morrison
Laboratory		Helen Sillars
Support		Karen Johnson / Ian Sells

Part D therefore provides the detailed objectives and detailed financial budgets for those various units. We then consolidate those financials to produce the overall water summaries.

5. **Network (Wellington City Water)**

Included in the consolidated position for water are the income and expenditure of the Network operation. As this operation is not funded by the water levy and given the significant changes that have occurred in the new contract, we have excluded the Network figures from the budget summary detailed in the next sections. The Network operation is budgeted to break even for the period.

6. Financial Summary

Therefore the detailed variances excluding Network are as follows:

Income Statement

	1999/00 Budget	1998/99 Budget	Budget Variance	1998/99 Forecast	1997/98 Actual
External Income	823,022	1,170,906	347,884 U	1,218,800	287,730
Wholesale Water Levy	25,218,423	25,218,423	-	25,218,423	25,218,423
Internal Income - Intra Divisional					
Strategy and Asset - Capex	365,000	300,000	65,000 F	390,000	305,411
Strategy and Asset - Opex	322,223	334,888	12,665 U	294,888	88,650
Operations - Wholesale	936,941	1,050,429	113,488 U	874,829	944,227
Operations - Network	291,786	273,322	18,464 F	286,922	1,204,700
Engineering Consultancy	122,080	131,938	9,858 U	131,938	127,301
Laboratory Services	41,651	41,355	296 F	42,155	36,649
Plantation Forestry	49,651	46,229	3,422 F	72,229	60,984
Total Intra Divisional Internal Income	2,129,332	2,178,161	48,829 U	2,092,961	2,767,922
Internal Income - Inter Divisional					
General Management	50,000	50,000	-	50,000	50,000
Resource Investigations	307,040	318,000	10,960 U	280,000	288,670
Consents	30,600	30,600	-	22,000	26,188
Hydrology - Mabey Road	2,000	2,000	-	1,100	793
Rivers - Mabey Road	7,000	7,000	-	10,000	8,863
Other	-	-	-	18,000	7,256
Total Inter Divisional Internal Income	396,640	407,600	10,960 U	381,100	381,770
Total Internal Income	2,525,972	2,585,761	59,789 U	2,474,061	3,149,692
Investment Income	177,824	187,702	9,878 U	317,000	386,917
Total Income	28,745,241	29,162,792	417,551 U	29,228,284	29,042,762
Direct Expenditure					
Internal Consultants - Intra Divisional					
Utility Services Support	682,951	688,111	5,160 F	688,111	524,557
Engineering Consultancy	350,000	495,000	145,000 F	164,170	489,966
Laboratory	385,444	371,000	14,444 U	451,103	384,658
Total Intra Divisional Internal Cons	1,418,395	1,554,111	135,716 F	1,303,384	1,399,181

Direct Expenditure (Continued)	1999/00 Budget	1998/99 Budget	Budget Variance	1998/99 Forecast	1997/98 Actual
Internal Consultants - Inter Divisional					
Cost of Democracy	296,121	307,071	10,950 F	307,071	282,324
RCC Rent	240,455	268,247	27,792 F	237,333	244,687
Mabey Road Rent	79,542	77,628	1,914 U	79,542	64,452
IT and Support Services	243,750	260,473	16,723 F	296,284	286,321
Consents	80,000	125,000	45,000 F	83,015	78,778
Resource Investigations	84,100	12,500	71,600 U	12,500	4,168
Recreation	8,290	7,915	375 U	108,500	38,630
Natural Forestry	208,500	208,500	-	208,500	260,894
Harbours and others	9,000	9,000	-	9,800	10,788
Total Inter Divisional Internal Cons	1,249,758	1,276,334	26,576 F	1,342,545	1,271,042
Total Internal Consultants	2,668,153	2,830,445	162,292 F	2,645,929	2,670,223
Personnel	3,674,350	3,956,920	282,570 F	3,516,666	3,850,854
Power	1,646,000	1,787,000	141,000 F	1,675,000	1,706,299
Chemicals	1,709,000	1,883,500	174,500 F	1,700,000	1,643,454
Insurance and Rates	580,781	549,905	30,876 U	558,994	564,191
Materials	1,247,716	1,662,842	415,126 F	1,467,206	1,138,531
Transport	184,600	215,600	31,000 F	158,600	164,174
Contractors	1,158,400	710,000	448,400 U	998,450	1,008,293
Consultants	1,121,721	921,000	200,721 U	794,550	671,421
Total Direct Expenditure	13,990,721	14,517,212	526,491 F	13,515,395	13,417,440
Indirect Expenditure					
Financial Costs	5,832,991	6,847,288	1,014,297 F	6,541,400	6,985,241
Depreciation	4,552,672	4,406,879	145,793 U	4,375,042	4,192,789
Corporate Overhead	731,254	716,438	14,816 U	716,435	749,846
Loss/(Gain) on sale	-19,000	-13,402	5,598 F	-20,447	-42,125
Total Indirect Expenditure	11,097,917	11,957,203	859,286 F	11,612,430	11,885,751
Total Expenditure	25,088,638	26,474,415	1,385,777 F	25,127,825	25,303,191
Operating Surplus	3,656,603	2,688,377	968,226 F	4,100,459	3,739,571

Statement of Funding					
	1999/00 Budget	1998/99 Budget	Budget Variance	1998/99 Forecast	1997/98 Actual
Operating Surplus	3,656,603	2,688,377	968,226 F	4,100,459	3,739,571
Add back Depreciation and Loss/Gain on Sale	4,533,672	4,393,477	140,195 F	4,354,595	4,150,664
Cash Out					
Asset Purchases					
Vehicles	215,000	98,000	117,000 U	140,000	114,700
Plant and Equipment	98,000	45,000	53,000 U	35,000	42,000
Furniture and Fittings	15,000	62,000	47,000 F	66,000	18,400
Capital Projects	3,775,000	5,945,000	2,170,000 F	5,400,000	3,606,500
Transfer to Reserves	885,000	885,000	-	885,000	2,750,900
Interest on Reserves	162,824	187,700	24,876 F	187,700	276,500
Investment Additions	500,000	500,000	-	620,000	610,400
Debt Repayment (refer note)	6,381,655	5,278,200	1,103,455 U	8,741,954	4,066,500
Total Funds Out	12,032,479	13,000,900	968,421 F	16,075,654	11,485,900
Cash In					
New Loans	2,950,000	3,985,000	1,035,000 U	3,485,000	3,526,100
Disposal Proceeds	62,000	34,000	28,000 F	33,600	64,300
Transfer from Reserves (refer note)	825,000	1,960,000	1,135,000 U	4,102,000	0
Total Funds In	3,837,000	5,979,000	2,142,000 U	7,620,600	3,590,400
Net Funds Position	-5,204	59,954	65,158 U	0	-5,265
Network Surplus/(Deficit)	5,204	-59,954	65,158 F	0	5,265
Water Funding Balance	0	0	0 U	0	0

Note

In the reported WRC 1997/98 accounts, the funding surplus (\$2.1M) was transferred to reserves. The 1998/99 accounts have transferred this from reserves to debt repayment. This has been reflected in the forecast for 1998/99.

7. Budget Variance Analysis

Operating Surplus

The operating surplus variance of \$968.2K reflects a number of favourable expenditure variances offset by a reduction in total income.

7.1 *External and Investment Income*

The differences that constitute the overall reduction in external and investment income of \$357.8K are as follows:

	Budget 1999/00	Budget 1998/99	Budget Variance
(1) Engineering Consultancy	713,000	971,000	258,000 U
(2) Laboratory Services	90,000	75,000	15,000 F
(3) Investment Income	177,824	187,702	9,878 U
(4) Rent (houses /easements)	20,022	124,906	104,884 U
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	1,000,846	1,358,608	357,762 U
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- (1) A reduction in the level of capital expenditure work performed on behalf of WCC.
- (2) More work being performed for external clients.
- (3) As a result of a slight reduction in the applicable interest rate on reserve investments.
- (4) Reduction in rental and easement income.

7.2 *Direct Expenditure - Personnel Costs*

The personnel expenditure differences are detailed as follows:

	Budget 1999/00	Budget 1998/99	Budget Variance
(1) Engineering Consultancy	833,387	929,100	95,713 F
(2) Operations (excluding Network)	1,574,606	1,556,033	18,573 U
(2) Strategy and Asset	381,934	379,215	2,719 U
(2) Laboratory services	358,291	345,445	12,846 U
(2) Support	526,132	497,127	29,005 U
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	3,674,350	3,706,920	32,570 F
(3) Contingency Provision	-	250,000	250,000 F
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	3,674,350	3,956,920	282,570 F
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- (1) Engineering Consultancy budget anticipates one less person compared to 1998/99.
- (2) The personnel cost budgets for Operations (excluding Network), Strategy and Asset, Laboratory Services and Support are all bottom up based and reflect expected costs based on the current staffing levels.
- (3) The 1998/99 budget included a \$250,000 contingency provision which reflected uncertainty about the future costs related to the 1997 Water Group restructuring. A similar provision for the 1999/00 budget is deemed unnecessary.

7.3 *Direct Expenditure – Power, Chemicals, Materials, Insurance and Rates*

The differences for these categories are detailed in total as follows:

	Budget 1999/00	Budget 1998/99	Budget Variance
(1) Engineering Consultancy	93,402	179,500	86,098 F
(2) Operations Administration	80,500	348,000	267,500 F
(3) Operations Production	3,376,000	3,458,000	82,000 F
(4) Operations Distribution	747,500	845,000	97,500 F
(5) Strategy and Asset	717,525	659,378	58,147 U
(6) Laboratory Services	109,109	103,909	5,200 U
(7) Support	59,461	39,460	20,001 U
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	5,183,497	5,633,247	449,750 F
(8) Contingency Provision	-	250,000	250,000 F
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	5,183,497	5,883,247	699,750 F
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- (1) Engineering Consultancy – reflects the anticipated lower level of WCC capital expenditure work.
- (2) Operations Administration – budget constructed on a bottom up basis and in line with expected costs.
- (3) Operations Production – reduced chemical usage and power costs, \$174,500 F and \$107,000 F respectively, are partially offset by an increase in materials used for plant maintenance, \$199,500 U.
- (4) Operations Distribution – lower power costs, \$34,000 F and a forecast lower material usage, \$63,500 F.
- (5) Strategy and Asset – anticipated increases in material usage, \$27,271 U and property rates \$31,870 U are the major drivers behind this unfavourable variance.
- (6) Laboratory Services – directly related to the quantum of work performed.
- (7) Support – budget constructed on a bottom up basis and in line with expected costs.
- (8) Previously forecasted savings within the total Water Group materials budget are now being realised, hence a repeat of the 1998/99 budget year provision is not required.

7.4 *Direct Expenditure - Contractors and Consultants*

The Contractor and Consultants differences are detailed as follows:

	Budget 1999/00	Budget 1998/99	Budget Variance
(1) Engineering Consultancy	24,000	44,000	20,000 F
(2) Operations Administration	50,000	89,000	39,000 F
(3) Operations Production	1,066,720	380,000	686,720 U
(4) Strategy and Asset	758,595	712,000	46,595 U
(5) Support	44,806	70,000	25,194 F
	1,944,121	1,295,000	649,121 U
	1,944,121	1,295,000	649,121 U

- (1) Engineering Consultancy – reflects the anticipated lower level of WCC capital expenditure work.
- (2) Operations Administration – budget constructed on a bottom up basis and in line with expected costs.
- (3) Operations Production – a number of different factors have constituted this significant variance including: increased ongoing maintenance requirements; the establishing of a permanent ranger presence in the Wainuiomata catchment area; and the fixed term employment of a UK Process Engineer and the increased costs arising from associated identified process developments.
- (4) Strategy and Asset – consultant savings of \$33,405 F have been more than offset by the requirement to contribute towards the Transit NZ pipe relay at Pukerua Bay, \$80,000 U.
- (5) Support – budget constructed on a bottom up basis and in line with expected costs.

7.5 *Indirect Expenditure - Financial Costs*

The financial cost reduction of \$1,014.3K has been mainly achieved, as a result of the interest rate reduction from 9.25% to 8.75% and application of this lower rate to significantly reduced debt levels.

7.6 *Indirect Expenditure - Depreciation*

The increase in the depreciation charge is due to the capitalisation last year of several major assets.

7.7 ***Internal Charges***

The net internal charges variance is \$102,503 F. This is made up of a considerable number of favourable and unfavourable variances.

7.8 ***Capital Expenditure***

The capital expenditure programme is detailed on pages 21 and 22 of The Water Group Proposed Operating Plan 1999-2007.

A significant review of the programme has been performed by Strategy and Asset which has resulted in some changes to the programme. The main differences to the previously proposed programme for 1999/00 is the deferral of the Silverstream Diversion Pipeline Project and alterations to the annual phasing of incurred costs for a number of other minor projects.

7.9 ***Debt Repayment***

The timing of debt repayment is in accordance with the maturity dates of the group of loans we currently have. In addition, the application of operating surpluses to debt repayment will mean reduced financing costs and faster than anticipated declining debt levels.

8. **Future Years**

Our view would be that outside impacts of inflation, we do not believe there is a reason why the water levy should increase across future years.

9. **Recommendation**

That the information be received and the comments noted.

DAVID BENHAM
Divisional Manager, Utility Services

Attachments