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Report 99.99

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Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer and
David Benham, Divisional Manager Utility Services

Long-term Financial Strategy 1997-2007 : 1999 Update – Wellington Metropolitan Bulk Water Supply

1. Purpose

To present the 1999/00 Proposed Annual Plan and Long-term Financial Strategy for the Wholesale Water Operation of the Wellington Regional Council.

2. Background

On 24 February 1999 the Utility Services Committee considered the Proposed Long-term Financial Strategy incorporating the 1999/00 Proposed Annual Plan, and recommended no changes. The Wholesale Water Supply position then is:

Proposed Levy 1999/00 incl. GST \$000s	Levy 1998/99 incl. GST \$000s	\$ change	% change
28,371	28,371	0%	0%

3. Distribution of the Levy to Four Cities

The apportionment of the levy is based on consumption from 1 April to 31 March of each year. While we have not quite reached the end of March the distribution of the revenue after 50 weeks is as follows:

	Proposed Levy 1999100 incl. GST \$000s	Levy 1998199 incl. GST \$000s	\$ change	% change
Wellington	14,339	14,954	-615	-4.1
Upper Hutt	3,039	2,625	+414	+15.8
Lower Hutt	7,854	7,821	+33	+0.4
Porirua	3,139	2,971	+168	+5.7
	<hr/>	<hr/>	<hr/>	<hr/>
	28,371	28,371	0	0%
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Our expectation is that final apportionment will not be significantly different after the final three weeks of the year are added. Note that as the meters are read each Wednesday there are 53 Wednesdays in the present meter reading year. However, the final position will not be known in sufficient time to include in the published Proposed Annual Plan.

The difference between cities is due to an allocation methodology that means the price to one city is dependent upon the usage of others. Clearly such a system produces unnecessary swings and is overdue for change. Discussions are currently being held with our customers to change the pricing methodology. This could impact on the payments made by each customer in the 1999/00 year.

4. Should the Levy Go Down?

For the benefit of those Councillors who are not members of the Utility Services Committee, the background to the issue of whether the levy should be reduced or not is as follows:

- The operation the Council owns has assets that tend to be of a long life and indeed the business of providing water to the community is a continuing one. Hence the need to plan well in advance. In that regard we will complete the implementation of our computerised asset management planning system by June 1999. Once that is complete we intend to look at all assets, review their useful lives and obtain an independent valuation for those assets.
- That exercise will confirm the adequacy or otherwise of our projected depreciation charge. You will be aware that depreciation is now required to be funded. Currently depreciation is covered by existing and projected revenue. We need to reconfirm that position with the asset review and revaluation exercises.

- Based on these facts and our projections for future water demand, our capital expenditure requirements into the future will be determined. All this information will then impact on estimated debt levels. We also propose to obtain independent advice on debt levels given the above information. This would incorporate inter-generational equity issues (i.e. fair payment by today's ratepayers and those in the future).
- Once these exercises are completed, which should be by the end of this calendar year, a sustainable long-term levy level will be known. Setting the future levy with precision will ideally require economic analysis to give background for the political judgement about the final decisions.
- We believe until these exercises are complete, it would be premature to reduce the levy.
- This will be the fourth year the levy has remained the same. This in effect is a 2.5% reduction in real terms.
- Our current policy applies any surpluses to debt so the overall benefits of further savings will not be lost. A levy reduction in Year 2000/01 would be based on strong analysis rather than an early judgement about the results of the analysis.
- If a change was to occur from July 2000 then that could well give us an opportunity in the meantime to change the pricing of water to the cities to a more appropriate basis.

Clearly a key determinant of the levy is the debt level and the rate of debt repayment. Attached (**Attachment 1**) is the water supply debt profile given 2% and 4% reduction in the levy compared with the "no change" position.

5. **Discussions with City Councils**

The recommendation of the Committee is that the levy remain at last year's level and that savings achieved be applied to accelerating debt repayment.

The Committee also considered that we should seek the opportunity, at an early date, to present the rationale behind holding the levy to each City well before the close of Annual Plan submissions. That would enable both this Council's position to be outlined and comments from the Cities to be noted. It would also enable the background to this Council's position to be known prior to the preparation of the City Councils' submissions. No doubt there will be pressure for a reduction in the levy.

Whether the Council decides to pre-empt the asset analysis and reduce the levy in 1999 **or** wait for the detailed analysis and make that decision in 2000, it will no doubt wish to see reductions accrue to retail water consumers of the metropolitan region.

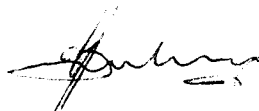
The Council will have the opportunity, when finalising the Annual Plan in June, to review its position if necessary.

6. Recommendation

- (1) *That this report be received and the contents noted.*
- (2) *That the Committee recommend to the Council that the bulk water levy for 1999/00 remain at the same level as the 1998/99 financial year.*
- (3) *That the Committee recommended to the Council that the Proposed Long-term Financial Strategy for Wholesale Water Supply incorporating the 1999/00 Proposed Annual Plan be approved for inclusion within Facing the Future 1997 – 2007 : 1999 update.*
- (4) *That the Committee recommend to the Council that it immediately discuss, with the four City Council customers, the issues associated with setting the levy.*



GREG SCHOLLUM
Chief Financial Officer



DAVID BENHAM
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Attachment: