greater WELLINGTON
THE REGIONAL COUNCIL

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Committee	**Policy, Finance and Strategy**
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Utility Services Division Proposed Business Plan 2004-2013 - Greater Wellington Water and Plantation Forestry

1. Purpose

To seek approval of the proposed Utility Services Division Business Plan for Greater Wellington Water and Plantation Forestry, including any amendments approved by the Committee.

2. Overview

2.1 Introduction

The operating plans, which have been provided separately, and will be tabled at the meeting on 4 March 2004, provide considerable strategic, operational and financial detail of our activities. This overview briefly runs through the issues facing us from strategic and financial points of view.

2.2 Greater Wellington Water

2.2.1 General

While clearly there are a number of strategic and operational issues to deal with in the coming years, there are no major changes from last year's plans. Although budgeted 2004/05 expenditure, excluding depreciation, is slightly down on the current year's budget, there are a number of ups and downs. The main rises are power and chemicals, while financial costs, insurance, and rate reductions offset those rises. Depreciation estimates have increased by $701,000 as an expected outcome of an asset revaluation exercise about to be undertaken. External revenue is down by $300,000 as a result of reduced income in the Laboratory and Engineering Consultancy business units. Better information has also meant we have amended upwards our capital expenditure projections over the next nine years by $4 million. The combined effect of these changes has pushed the estimated debt level in 2012/13 from $47.3 million to $55.6 million. While I believe these changes are at the conservative end of the scale, they do have the effect of holding the debt around our "target" level of $50 million across the planning period. Generally, these changes affect the latter few years of the planning period (see

Attachment 1 for graph projection).

Notwithstanding this, we are recommending no change to the water levy for 2004/05 and, to the extent that we can, for future years as well.

Generally in the past, the reducing debt load and the consequent reduction in financial costs, together with improved operating efficiency, have been able to continually offset other cost increases. These cost increases have generally been in the non-controllable area of infrastructural rates and insurance, and have not been inconsequential. Cost increases are now occurring in other operating areas.

This will be the eighth consecutive year that the levy has been either held or gone down. While we seem to say this each year, overall cost increases are now starting to bite. Hopefully it turns out to be more of a nibble!

2.2.2 Key Features - Financial

- It is proposed that the levy for the 2004/05 year (and beyond) remain unchanged from the 2003/04 year at $22,776,000 (excluding GST).

- External revenue between the two budgets 2003/04 and 2004/05 is down by $343,000, which is largely driven by the reduced income for the Laboratory from the Environment Division and for the Engineering Consultancy Group from Wellington City Council Capex work.

- Investment income is up by $167,000, which is driven by a higher interest rate and increased insurance reserve balance.

- Total expenditure, budget to budget, shows a $644,000 increase. Within that number there are a considerable number of ups and downs. However, the main upward driver is an estimated increase in depreciation expense of $701,000, without which total budgeted expenditure would be slightly below the 2003/04 budget.

  - Intradivisional internal charges

    These costs are up by $134,000, reflecting increased costs from the Laboratory and work that the Engineering Consultancy Group is expected to do for the Strategy and Asset Group.

  - Interdivisional internal charges

    The main difference here is the reduction in total Regional Council Centre rent charges relating to Corporate taking ownership of the Level 4 Hoyts meeting room.

  - Other direct costs

    The main changes are:

    - Base personnel Up $153,000

      (Offset by an additional $140,000 to be charged to capital projects)

- Power Up $243,000
- Chemicals Up $193,000
- Insurance and rates Down $153,000

- Indirect expenditure

  - Financial costs Down $277,000
  - Depreciation Up $701,000

    (This is the estimate of the likely increase in depreciation charge as a result of the planned 30 June 2004 infrastructure asset revaluation)
  - Loss on sale Down $158,000

    (Infrastructure asset write-off quantum expected to reduce in 2004/05)
  - Corporate overheads Down $14,000

    (Some increases are offset by reduction in social marketing expenditure charged to water)

- Operating surplus/deficit

  The lower revenue and higher expenditure produces a budgeted operating deficit of $387,000 in 2004/05.

- Capital expenditure

  The capital expenditure programme is detailed in the business plan but there is a $4 million increase in the remaining 9 years of the programme, compared to the programme produced for last year's budgeting process.

  The main changes in the new 9 year plan are:

Additions:	$ M
Sources	
Secure lower Wainuiomata Dam	0.300
Wainuiomata off-river storage	0.100
Wainuiomata Catchment boundary fence extension	0.200
Pipelines	
Valve replacements	0.200
Pumping Stations	
Karori Pumping Station increased costs	0.412
Reservoirs	
Wainuiomata Terminal Reservoir increased costs (in years 2011/13)	1.500

	$ M
Monitoring and control	
Reassessment of work needed	0.900
Deletions:	
Treatment plants	
Minor changes to the 9 year period	(0.264)

- Debt at June 2005 is expected to be $47.2 million rising to $55.6 million by June 2013.

- The self-insurance reserve is budgeted to hit $8.0 million by June 2005 and $20.4 million by June 2013.

2.2.3 Strategic Issues

- A significant population "blip" has occurred in the four city areas in the last couple of years. The population on Census night 2001 was 343,000. Statistics New Zealand has since revised that number up to 363,000 with the main factor being immigration. While this population increase is significant, it has been somewhat moderated by a reduction in the water used per head. Trends seem to indicate that demand continues to increase at about 1 percent per year, which if that continues means that we have plenty of water with current sources until 2020, as we have been predicting for the last 6 to 7 years. In the unlikely event that the recent population rate increase continues, that prediction would need to be revised markedly (see Attachment 2 for graph projection).
- The *Cryptosporidium* incident at the Masterton District Council treatment plant has resulted in assistance being sought, both in the short-term and now long-term. More formal arrangements are currently being discussed. Clearly there are broader community advantages from the use of our expertise, as increased water supply standards are demanded of all water supply authorities.
- The Kapiti Coast District Council water shortfalls continue to test that community and requests for our involvement may increase.
- The new Wellington City Council/Hutt City Council water entity should become operational "shortly". It is expected that once the formative pains of this entity pass there will be increasing pressure for us to become a part of that entity.
- Given that the social marketing campaign seems likely to deliver little for us in terms of water conservation promotion, we have added $60,000 into our budget to enable the reintroduction of a summer water conservation campaign. A review of the social marketing cost allocation methodology has seen a credit coming our way that will offset some of this additional cost.

- After a comprehensive review of our Laboratory operation, we have decided to retain our in-house laboratory capability, albeit on a somewhat reduced scale. A significant effort will be required over time to streamline our activities here to try and balance the budget.
- An ongoing concern in the Engineering Consultancy Group is the steadily reducing volume of work we are receiving from WCC. What the new water entity will do in this regard is unknown. We will be monitoring developments closely. In the interim our own projects are taking up the slack adequately.

2.3 Plantation Forestry

In essence, the whole strategy for Plantation Forestry is to maximise revenue and keep costs to a minimum, with a very close watch being maintained over roading expenditure. In the end our success or otherwise in this regard is the resulting debt position. While I think our estimates have been a little more bearish this year, we hope to improve on the June 2005 debt position of $12.9 million, which is a deterioration of $0.5 million from our expected June 2004 position.

3. Changes to the Proposed Business Plan Recommended by Officers

Officers are not recommending any changes to the proposed business plan.

4. Communications

Officers plan to discuss the broad contents of the proposed business plan with the four customers as has been our normal practice.

5. Recommendations

That the Committee recommend to Council that it:

(1) *Receive the report and note its contents.*

(2) *Approve the proposed Utility Services Division Business Plan (including any amendments approved by the Committee) for inclusion in the Council's Proposed 2004/5 Annual Plan.*

Report prepared by:

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Attachments:

1 Greater Wellington Water Debt Scenario Graph
2 Wellington Population Graph