

Report 00.64

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

Utility Services Division: Proposed Operating Plans 2000-2010

1. Purpose

To provide a summary of the Operating Plans for the Utility Services Division. The attached Operating Plans provide a more detailed overview of the 2000/01 budgets.

2. Water Supply Operating Plan for 2000/01 and Projections to 2010 and Beyond

2.1 Background

The December Utility Services Committee meeting saw the presentation of a major report drawing together the various issues associated with the main determinants that drive our business. This report is provided as Attachment 1.

In summary that report reviewed the business from the following perspectives:

- Projected population changes and potential impact on water demand
- Raw water availability
- Risk of shortfall
- Options for provision of new water sources
- Water quality expectations
- Operational costs
- Capital expenditure
- Review of asset values and associated asset lives and resulting expected depreciation

- Debt management – including levels of debt, future capital expenditure requirements, interest rate risk and intergenerational equity.

Having taken all these factors into account a financial model produced various scenarios of levy required to meet the above assumptions. As was stated in the report “when making the judgment on next year’s levy and future levies, the above factors should be taken into account. Your personal point of view, and to an extent your view of what the future holds, will determine whether you favour accelerated debt repayment or levy reduction now, or a combination of both. Adjustments can be made each year as circumstances change”.

It was the view of the officers that given the analysis of information to that point a future levy reduction of 4 percent or \$970,000 would be sustainable for the 2000/01 financial year.

2.2 Water Supply Performance

Since June 1997 operating costs have been reduced by about \$4M per annum or 15 percent. This is in both direct operating expenses and financial costs. Given our performance for the six months to December 1999 it appears that our costs are stabilising around that level. We do however expect some future improvement and savings as a result of increasing treatment plant efficiency over the next twelve months. We expect then, however, costs to bottom out and perhaps then move upwards with inflation.

2.3 Water Levy 2000/01

Since our December report a full detailed review of costs have been undertaken. Information on performance for the half year to date is now available and forecasts for the full year have been estimated. This analysis has resulted in some movement upward in operating expenditure and capital expenditure in future years. This has moved the debt free year out about four years (assuming a 4% reduction in the levy). This does emphasise the sensitivity of projections out 20 – 30 years. Notwithstanding those changes we confirm our previous recommendation to reduce the levy by 4 percent or \$970,000 for the 2000/01 year. That position is included in the figures before you.

2.4 Impact on Debt

Attachment 2 shows the projected debt profile after the reduction in the levy. It also shows various other debt positions if other levy settings are used.

2.5 Capital Expenditure

Capital Expenditure for 2000/01 has been set at \$3.4M. Future years show capital expenditure varying between \$4.1M and \$5.9M per annum.

3. **Water Reticulation Facilities Management Contract with Wellington City Council**

Our current contract with Wellington City council expires on the 30 June 2000. Given the uncertainty as to future of this contract we have simply assumed a break-even situation within the budgets before you.

Wellington City has advised us that they intend to competitively tender some, or all, of the current contract. We also expect that the majority of the work currently undertaken by our Engineering Consultancy Group will be transferred to Wellington City from 1 July 2000.

If we lose all this work it will mean the loss of some 40 jobs and costs in excess of \$1M to this Council. It is disappointing that this process has been initiated prior to the completion of discussions over a joint initiative on water management between the two organisations which has the potential to save costs in both Councils.

We believe the steps Wellington City are taking will ultimately see a further disaggregation of the water supply network which is contrary to what we all seem to be seeking – a fully integrated water supply network.

4. **Plantation Forestry**

Councillors will be familiar with the situation with Plantation Forestry from a recent workshop. From a planning perspective, our projections in forestry are not generally changed from that presented to you late last year.

In summary debt increases to approximately \$12M in 2007/08. Our projections show that this debt will be gradually whittled away by 2022/23. During the entire period \$300,000 is provided each year to reduce regional rates.

5. **Summary of Operating Plans**

5.1 **Water Supply**

- Reduction in levy for 2000/01 of 4 percent or \$970,000 is proposed and then held for future years.
- Debt will reduce to \$41.6M by 2010 and will be debt free by 2020/21.
- Capital Expenditure of \$3.4M for 2000/01, and remains steady across the remaining period with between \$4.1M and \$5.9M being incurred.

5.2 Facility Management Contract with Wellington City Council

- Contract expires 30 June 2000.
- Impact significant if contract lost.

5.3 Plantation Forestry

- Surpluses up to \$714,000 recorded across the period.
- Deficits up to \$397,000 recorded across the period.
- Debt reaches maximum of approximately \$12M in 2007/08 and becomes debt free by 2022/23.
- \$300,000 contributions to rates continue across the period.

6. Recommendations

- (1) *That the report be received, contents noted.*
- (2) *That the Water Group Operating Plan be approved in principle.*
- (3) *That Plantation Forestry Operating Plan be approved in principle.*
- (4) *That draft operating plans for the above activities be recommended to the Policy and Finance Committee for inclusion in the Councils proposed Long Term Financial Strategy 2000-2010*

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Attachments