

# Public Excluded

**Report PE-00.84**

14 February 2000

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

## Water Group : Proposed Operating Plans 2000-2010

### 1. Purpose

To provide a more detailed analysis of the Water Group's Operating Plan for 2000/01, 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. 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:

<b>Operations</b>	<ul style="list-style-type: none"> <li>• Production</li> <li>• Distribution</li> <li>• Network (Wellington City Water)</li> </ul>	Dan Roberts
<b>Strategy and Asset</b>		Murray Kennedy
<b>Engineering Consultancy</b>		John Morrison
<b>Laboratory</b>		Karin Floyd
<b>Support</b>		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, 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

	2000/01 Budget	1999/00 Budget	Budget Variance	1999/00 Forecast
External Income	607,362	823,022	215,660 U	846,000
Wholesale Water Levy	23,241,299	24,209,686	968,387 U	24,209,686
Total Intra Divisional Internal Income	2,244,303	2,129,332	114,971 F	2,132,509
Internal Income - Inter Divisional				
General Management	50,000	50,000	-	50,000
Resource Investigations	270,000	307,040	37,040 U	297,040
Consents	5,000	30,600	25,600 U	22,500
Hydrology - Mabey Road	3,115	2,000	1,115 F	2,000
Rivers - Mabey Road	12,000	7,000	5,000 F	9,950
Total Inter Divisional Internal Income	<u>340,115</u>	<u>396,640</u>	<u>56,525 U</u>	<u>381,490</u>
<b>Total Internal Income</b>	<b><u>2,584,418</u></b>	<b><u>2,525,972</u></b>	<b><u>58,446 F</u></b>	<b><u>2,513,999</u></b>
Investment Income	330,718	278,429	52,289 F	282,829
<b>Total Income</b>	<b><u>26,763,797</u></b>	<b><u>27,837,109</u></b>	<b><u>1,073,312 U</u></b>	<b><u>27,852,514</u></b>
<b>Direct Expenditure</b>				
Total Intra Divisional Internal Consultants	1,420,226	1,422,895	2,669 F	1,401,561
Internal Consultants - Inter Divisional				
Cost of Democracy	365,173	336,121	29,052 U	336,121
RCC Rent	240,252	240,455	203 F	240,455
Mabey Road Rent	79,542	79,542	-	79,542
IT & Support Services	242,150	243,750	1,600 F	245,200
Consents	80,000	80,000	-	80,000
Resource Investigations	58,364	84,100	25,736 F	84,100
Education Co-ordination	50,000	-	50,000 U	-
Regional Parks (Operations)	358,965	216,790	142,175 U	351,538
Harbours & Others	4,500	4,500	-	4,500
Total Inter Divisional Internal Consultants	<u>1,478,946</u>	<u>1,285,258</u>	<u>193,688 U</u>	<u>1,421,456</u>
Total Internal Consultants	<u>2,899,172</u>	<u>2,708,153</u>	<u>191,019 U</u>	<u>2,823,017</u>
Personnel	4,004,828	3,797,648	207,180 U	3,874,900
Capex Project Resource Cost Credit	-350,000	-100,000	250,000 F	-400,000
Power	1,880,000	1,562,000	318,000 U	1,792,000
Chemicals	1,529,150	1,747,000	217,850 F	1,552,000
Insurance & Rates	594,504	614,253	19,749 F	548,000
Materials	1,128,026	1,236,944	108,918 F	1,286,500
Transport	195,425	184,600	10,825 U	162,000
Contractors	953,700	1,149,400	195,700 F	874,400
Consultants	972,300	1,115,721	143,421 F	840,600
<b>Total Direct Expenditure</b>	<b><u>13,807,105</u></b>	<b><u>14,015,719</u></b>	<b><u>208,614 F</u></b>	<b><u>13,353,417</u></b>

	<i>2000/01 Budget</i>	<i>1999/00 Budget</i>	<i>Budget Variance</i>	<i>1999/00 Forecast</i>
<b>Indirect Expenditure</b>				
Financial Costs	5,331,112	5,897,935	566,823 F	5,766,560
Depreciation	5,165,575	4,562,623	602,952 U	4,670,074
Corporate Overhead	765,600	731,254	34,346 U	731,254
Provision for Doubtful & Bad Debts	-	1,000	1,000 F	5,500
Loss / (Gain) on Sale	-31,400	-19,000	12,400 F	-47,400
<b>Total Indirect Expenditure</b>	<b><u>11,230,887</u></b>	<b><u>11,173,812</u></b>	<b><u>57,075 U</u></b>	<b><u>11,125,988</u></b>
<b>Total Expenditure</b>	<b><u>25,037,992</u></b>	<b><u>25,189,531</u></b>	<b><u>151,539 F</u></b>	<b><u>24,479,405</u></b>
<b>Operating Surplus</b>	<b><u>1,725,805</u></b>	<b><u>2,647,578</u></b>	<b><u>921,773 U</u></b>	<b><u>3,373,109</u></b>

<b>Statement of Funding</b>	<i>2000/01 Budget</i>	<i>1999/00 Budget</i>	<i>Budget Variance</i>	<i>1999/00 Forecast</i>
<b>Operating Surplus</b>	1,725,805	2,647,578	921,773 U	3,373,109
Add Back Depreciation & Loss / (Gain) on Sale	5,134,175	4,543,623	590,552 F	4,622,674
<b>Cash Out</b>				
Asset Purchases				
Vehicles	248,000	215,000	33,000 U	215,000
Plant & Equipment	169,000	148,000	21,000 U	197,000
Furniture & Fittings	50,000	15,000	35,000 U	5,000
Capital Projects	3,397,000	4,165,000	768,000 F	3,717,000
Transfer to Reserves	885,000	885,000	-	885,000
Interest on Reserves	140,206	162,824	22,618 F	167,224
Investment Additions	690,512	615,605	74,907 U	615,605
Debt Repayment	4,758,262	5,216,976	458,714 F	5,972,954
<b>Total Funds Out</b>	<b>10,337,980</b>	<b>11,423,405</b>	<b>1,085,425 F</b>	<b>11,774,783</b>
<b>Cash In</b>				
New Loans	985,000	3,340,000	2,355,000 U	2,892,000
Disposal Proceeds	81,000	62,000	19,000 F	62,000
Transfer from Reserves	2,412,000	825,000	1,587,000 F	825,000
<b>Total Funds In</b>	<b>3,478,000</b>	<b>4,227,000</b>	<b>749,000 U</b>	<b>3,779,000</b>
<b>Net Funds Position</b>	-	-5,204	5,204 F	-
<b>Network Surplus / (Deficit)</b>	-	5,204	5,204 U	-
<b>Water Funding Balance</b>	-	-	-	-

## 7. Budget Variance Analysis

### Operating Surplus

The unfavourable operating surplus variance of \$921.8K primarily 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 \$163.4K are as follows:

	<b>Budget 2000/01</b>	<b>Budget 1999/00</b>	<b>Budget Variance</b>
(1) Engineering Consultancy	548,000	713,000	165,000 U
(2) Laboratory Services	20,000	90,000	70,000 U
(3) Investment Income	330,718	273,429	52,289 F
(4) Residential Rent and Easement Income	29,362	20,022	9,340 F
(5) Trade and Scrap Sales	10,000	-	10,000 F
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	938,080	1,101,451	163,371 U
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- (1) A reduction in the level of capital expenditure work performed on behalf of WCC.
- (2) Less work being performed for external clients.
- (3) As a result of a slight increase in the applicable interest rate on reserve investments.
- (4) Increase in rental and easement income.
- (5) Miscellaneous trade and scap sales of surplus wholesale water inventory.

## 7.2 *Direct Expenditure - Personnel Costs*

The personnel expenditure differences are detailed as follows:

	<b>Budget 2000/01</b>	<b>Budget 1999/00</b>	<b>Budget Variance</b>
(1) Engineering Consultancy	811,117	833,387	22,270 F
(1) Operations (excluding Network)	1,849,980	1,696,404	153,576 U
(1) Strategy and Asset	387,786	381,934	5,852 U
(1) Laboratory Services	370,514	359,791	10,723 U
(2) Support	585,431	526,132	59,299 U
(3) Capex Project Resource Cost Credit	(350,000)	(100,000)	250,000 F
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	3,654,828	3,697,648	42,820 F
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- (1) The personnel cost budgets for Engineering Consultancy, Operations (excluding Network), Strategy and Asset and Laboratory Services are all bottom up based and reflect expected costs based on the current staffing levels.
- (2) Support budget anticipates one extra person compared to 1999/00.
- (3) The Capex Project Resource Cost Credit represents work performed by the Wholesale Water departments on capital programme projects. These costs are capitalised upon completion of the specific projects rather than expensed as per normal operational activities.

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

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

	<b>Budget 2000/01</b>	<b>Budget 1999/00</b>	<b>Budget Variance</b>
(1) Engineering Consultancy	42,498	91,602	49,104 F
(2) Operations Administration	74,097	80,500	6,403 F
(3) Operations Production	3,310,630	3,361,000	50,370 F
(4) Operations Distribution	787,514	742,500	45,014 U
(5) Strategy and Asset	764,385	717,525	46,860 U
(6) Laboratory Services	99,210	107,609	8,399 F
(7) Support	53,346	59,461	6,115 F
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	5,131,680	5,160,197	28,517 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, property expenses and sundry supplies, \$208,850 F, \$34,500 F and \$39,220 F respectively, are offset by an increase in power costs \$230,000 U.
- (4) Operations Distribution – higher power costs, \$88,000 U offset by various lower materials, supplies and service requirements, \$42,986 F.
- (5) Strategy and Asset – an anticipated increase in the advertising and promotion budget, \$113,000 U is partially offset by savings elsewhere in the materials, supplies and services budget.
- (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.



#### 7.4 *Direct Expenditure - Contractors and Consultants*

The Contractor and Consultants differences are detailed as follows:

	<b>Budget 2000/01</b>	<b>Budget 1999/00</b>	<b>Budget Variance</b>
(1) Engineering Consultancy	3,000	24,000	21,000 F
(2) Operations Administration	6,000	50,000	44,000 F
(3) Operations Production	798,700	1,066,720	268,020 F
(4) Operations Distribution	101,000	150,000	49,000 F
(5) Strategy and Asset	951,300	923,595	27,705 U
(6) Laboratory Services	6,000	6,000	-
(7) Support	60,000	44,806	15,194 U
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	1,926,000	2,265,121	339,121 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 – a number of different factors have contributed to this significant variance including: reduced ongoing maintenance requirements; the costs of maintaining a permanent ranger presence in the Wainuiomata catchment area are shown this year as an internal charge and the completion of a number of special projects requiring additional external resource.
- (4) Operations Distribution – budget constructed on a bottom up basis and aligned to lower resource requirements.
- (5) Strategy and Asset – budget constructed on a bottom up basis and in line with anticipated requirements.
- (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.

#### 7.5 *Indirect Expenditure - Financial Costs*

The financial cost reduction of \$566.8K has been mainly achieved, as a result of the interest rate reduction from 8.75% to 8.50% 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, following the completion of a number of specific capital programme projects. In addition the asset revaluation exercise has also reviewed all assets and their expected lives. This has resulted in an increased depreciation provision.

### 7.7 ***Internal Charges***

The net internal charges variance is \$132,573 U. This is made up of a considerable number of favourable and unfavourable variances, the most significant of which is an unfavourable variance associated with the costs of the Wainuiomata ranging service. This was shown as an external contractor cost in the 1999/00 budget.

### 7.8 ***Capital Expenditure***

The capital expenditure programme is detailed on pages 20 of The Water Group Proposed Operating Plan 2000-2010.

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 2000/01 is the deferral of the Silverstream Diversion Pipeline Project and alterations to the annual phasing of incurred costs for a number of other 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

**Utility Services Committee**

**21 February 2000**

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