

**Report No. 00.116**

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

**Long Term Financial Strategy 2000-2010 : Proposed Annual Plan 2000/01  
Wellington Metropolitan Wholesale Water Supply**

1. **Purpose**

To present the 2000/01 Proposed Annual Plan and Long-term Financial Strategy for the Wholesale Water Operation of the Wellington Regional Council.

2. **Background**

On 21 February 2000 the Utility Services Committee considered the Proposed Long Term Financial Strategy, incorporating the 2000/01 Proposed Annual Plan, and recommended no changes to that presented. The proposed Wholesale Water Supply Levy position then is:

<b>Proposed Levy 2000/01, including GST \$000s</b>	<b>Levy 1999/00 including GST \$000s</b>	<b>Change \$000s</b>	<b>% Change</b>
26,145	27,237	-1,092	-4

If this levy position is confirmed, the levy will have increased in absolute terms by 4.8 percent since 1990/91. If that increase is adjusted for inflation over that period, the price of water next year will be 7.9 percent below that in 1990/91.

3. **Comment**

Previously, the December Utility Services Committee had considered a major report on the main determinants that drive the water business. That report was also forwarded in December to our four city council customers for comment.

Of the four city councils, Hutt City, Upper Hutt City and Porirua City have formally considered our report. The reports and recommendations of the three cities are attached. Wellington City has not considered the report to date.

Broadly speaking, those cities seem comfortable with the proposed 4 percent reduction in the levy but believe the position presented is somewhat conservative.

All the cities are concerned that we have used the high growth population scenario rather than mid-growth. Our report did state, however, *while this approach may be conservative, planning will proceed for developing a new water source, but if the growth does not eventuate then construction of the new source can be deferred.*

The removal of the proposed expenditure of \$4 M to develop a new source by 2020 has little impact as the projections show the operation being debt free about 2020 anyway.

We would disagree with Porirua City Council's conclusion that there is a very low risk of significant fluctuations in interest rates. The last 20 years has seen interest rates move by more than 15 percent, both up and down. It should also be noted that our treasury management could only insulate us from those impacts for a relatively short period. This is because of the fact that debt is progressively maturing, some of which is required to be rolled over. It is seldom cost effective to fully hedge such rollover risk over the long-term.

Porirua City Council also makes various comments as to the impact of inflation. Our model is constructed without attempting to estimate what inflation will do. Trying to estimate the impact of overall inflation on our business, let alone into all of our various cost types in my view is futile. Any future movement in costs will be looked at within each individual cost type each year and a change in levy recommended accordingly. Furthermore, the interest rate set in the model is 8.5 percent and if that changes, as with operating costs, then future changes in the levy may be required beyond 2000/01. We have provided various scenarios showing the impact of interest rate changes but have made no attempt to scenario the impact of varying levels of inflation.

The model we have constructed simply says that, assuming no inflation and interest rate of 8.5 percent, then the future profile looks like this.

The intergenerational equity question is a vexed one and clearly different views exist when it comes to who pays for long life assets and hence how should the debt load be shared.

Notwithstanding the various views expressed, this Council will have the opportunity each year to review the various assumptions and set the levy accordingly.

#### 4. **Distribution of the Levy to the Four Cities**

The expected out-turn is based on consumption to 23 February 2000. This is for 47 of the 52 weeks in the metering year, which ends in the last weekend in March. The final position will not be known in sufficient time to include in the published Proposed Annual Plan.

	<b>Levy Set in June 1999 1999/00, including GST \$000</b>	<b>Expected Out- turn Based on Consumption to 23 Feb 2000, including GST \$000</b>	<b>Proposed Levy 2000/01, including GST \$000</b>	<b>Change from Out-turn, including GST \$000</b>
Hutt	7,510	7,169	6,882	-287
Porirua	3,012	2,798	2,686	-112
Upper Hutt	2,944	2,798	2,686	-112
Wellington	13,770	14,471	13,891	-580
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	<b>27,236</b>	<b>27,236</b>	<b>26,145</b>	<b>-1,091</b>
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The difference between cities is because of an allocation methodology that means the price to one city is dependent upon the usage of others.

## 5. **Communications**

Within overall Council release of Long Term Financial Strategy material.

## 6. **Recommendations**

- (1) *That the report be received and the information noted.*
- (2) *That the Committee recommend to the Council that the wholesale water levy for 2000/01 be reduced by 4 percent or \$1,091,000 from the level set for the 1999/00 financial year.*
- (3) *That the Committee recommend to the Council that the Proposed Long Term Financial Strategy for Wholesale Water Supply, incorporating the 2000/01 Proposed Annual Plan, be approved for inclusion within Investing in the Future 2000–2010.*

Report prepared by:

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Attachment : 1