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## **Public Excluded**

**Report PE-01.87**

12 February 2001

File: O/3/2/12

US PE-01.87

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

### **Water Group : Proposed Operating Plans 2001-2010**

#### **1. Purpose**

To provide a more detailed analysis of the Water Group's Operating Plan for 2001/02, 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>	• Production	Dan Roberts
	• Distribution	
	• Network (Wellington City Water)	
<b>Strategy and Asset</b>		Murray Kennedy
<b>Engineering Consultancy</b>		John Morrison
<b>Laboratory Services</b>		Peter Nugent
<b>Support Services</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 Regional Water Supply 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.

## 6. Financial Summary

Therefore the detailed variances excluding Network are as follows:

<b>Income Statement</b>				
	<b>2001/02 Budget</b>	<b>2000/01 Budget</b>	<b>Budget Variance</b>	<b>2000/01 Forecast</b>
External Income	620,884	607,362	13,522 F	964,000
Wholesale Water Levy	23,241,299	23,241,299	-	23,241,299
Total Intra Divisional Internal Income	2,316,004	2,244,303	71,701 F	2,461,303
Internal Income - Inter Divisional				
General Management	50,000	50,000	-	50,000
Resource Investigations	220,500	270,000	49,500 U	270,000
Consents Management	10,000	5,000	5,000 F	12,000
Hydrology - Mabey Road Recovery	1,678	3,115	1,437 U	3,115
Flood Protection - Mabey Road Recovery	11,741	12,000	259 U	12,000
Others	-	-	-	14,000
Total Inter Divisional Internal Income	293,919	340,115	46,196 U	361,115
<b>Total Internal Income</b>	<b>2,609,923</b>	<b>2,584,418</b>	<b>25,505 F</b>	<b>2,822,418</b>
Investment Income	295,012	334,174	39,162 U	349,000
<b>Total Income</b>	<b>26,767,118</b>	<b>26,767,253</b>	<b>135 U</b>	<b>27,376,717</b>
<b>Direct Expenditure</b>				
Total Intra Divisional Internal Consultants	1,563,058	1,420,226	142,832 U	1,705,226
Internal Consultants - Inter Divisional				
Cost of Democracy	371,393	365,173	6,220 U	365,173
RCC Rent	236,946	240,252	3,306 F	240,368
Mabey Road Rent	80,855	79,542	1,313 U	79,542
IT & Support Services	259,390	242,150	17,240 U	267,836
Consents Management	80,000	80,000	-	59,904
Resource Investigations / Policy	42,752	58,364	15,612 F	58,364
Education Co-Ordination	50,000	50,000	-	50,000
Regional Parks (Operations)	329,976	358,965	28,989 F	350,000
Harbours	4,500	4,500	-	4,500
Total Inter Divisional Internal Consultants	1,455,812	1,478,946	23,134 F	1,475,687
Total Internal Consultants	3,018,870	2,899,172	119,698 U	3,180,913
Base Personnel Costs	3,985,631	4,004,828	19,197 F	3,986,698
Capex Project Resource Cost Credit	-237,000	-350,000	113,000 U	-300,000
Power - Used In Production	1,880,000	1,880,000	-	1,720,000
Chemicals - Used In Production	1,540,700	1,500,150	40,550 U	1,435,000
Insurance & Rates	521,292	542,259	20,967 F	542,259
Materials	1,286,129	1,209,271	76,858 U	1,436,741
Transport	185,888	195,425	9,537 F	180,000
Contractors / Consultants	1,894,200	1,926,000	31,800 F	1,871,000
<b>Total Direct Expenditure</b>	<b>14,075,710</b>	<b>13,807,105</b>	<b>268,605 U</b>	<b>14,052,611</b>
	<b>2001/02 Budget</b>	<b>2000/01 Budget</b>	<b>Budget Variance</b>	<b>2000/01 Forecast</b>

**Indirect Expenditure**

Financial Costs	4,856,478	5,328,302	471,824 F	5,028,000
Depreciation	5,220,601	5,184,466	36,135 U	5,150,968
Corporate Overhead	766,794	765,600	1,194 U	765,600
Gain on Sale	-32,200	-31,400	800 F	-8,200
<b>Total Indirect Expenditure</b>	<b><u>10,811,673</u></b>	<b><u>11,246,968</u></b>	<b><u>435,295 F</u></b>	<b><u>10,936,368</u></b>
<b>Total Expenditure</b>	<b><u>24,887,383</u></b>	<b><u>25,054,073</u></b>	<b><u>166,690 F</u></b>	<b><u>24,988,979</u></b>
<b>Operating Surplus</b>	<b><u>1,879,735</u></b>	<b><u>1,713,180</u></b>	<b><u>166,555 F</u></b>	<b><u>2,387,738</u></b>

**Statement of Funding**

	<i>2001/02 Budget</i>	<i>2000/01 Budget</i>	<i>Budget Variance</i>	<i>2000/01 Forecast</i>
<b>Cash was provided from:</b>				
<b>Operating Activities</b>				
Operating Surplus	1,879,735	1,713,180	166,555 F	2,387,738
Add Back Depreciation	5,220,601	5,184,466	36,135 F	5,150,968
Add Back Gain on Sale	-32,200	-31,400	800 U	-8,200
<b>Funds from Operations</b>	<b>7,068,136</b>	<b>6,866,246</b>	<b>201,890 F</b>	<b>7,530,506</b>
<b>Investing Activities</b>				
Asset Disposals	71,000	81,000	10,000 U	67,200
Transfer from Reserves	1,435,398	2,492,000	1,056,602 U	2,492,000
New Loans	2,109,602	1,555,000	554,602 F	1,272,600
<b>Funds from Investing Activities</b>	<b>3,616,000</b>	<b>4,128,000</b>	<b>512,000 U</b>	<b>3,831,800</b>
<b>Funds provided to:</b>				
<b>Investing Activities</b>				
Transfer to Reserves	885,000	885,000	-	885,000
Interest on Reserves	61,969	143,662	81,693 F	143,662
Investment Additions	733,044	690,512	42,532 U	690,512
Asset Purchases				
Vehicles	194,000	248,000	54,000 F	218,000
Plant & Equipment	157,000	169,000	12,000 F	118,500
Furniture & Fittings	58,000	50,000	8,000 U	-
Capital Projects	3,545,000	4,047,000	502,000 F	3,764,600
Debt Repayment	5,050,123	4,761,072	289,051 U	5,542,032
<b>Funds to Investing Activities</b>	<b>10,684,136</b>	<b>10,994,246</b>	<b>310,110 F</b>	<b>11,362,306</b>
<b>Net Increase / (Decrease) in Funds Held</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**7. Budget Variance Analysis****Operating Surplus**

The total favourable operating surplus variance of \$166.5K reflects a significant financial costs favourable variance, offset by various unfavourable direct cost variances and a very slight reduction in total income.

### 7.1 *External and Investment Income*

The differences that constitute the overall reduction in external and investment income of \$25.6K are as follows:

	<b>Budget 2001/02</b>	<b>Budget 2000/01</b>	<b>Budget Variance</b>
(1) Engineering Consultancy	533,000	548,000	15,000 U
(2) Laboratory Services	50,000	20,000	30,000 F
(3) Investment Income	295,012	334,174	39,162 U
(4) Residential Rent and Easement Income	37,884	29,362	8,522 F
(5) Trade and Scrap Sales	-	10,000	10,000 U
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	915,896	941,536	25,640 U
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- (1) A reduction in the level of capital expenditure work performed on behalf of WCC largely offset by proposed activity on the Water Services Agreement.
- (2) More work being performed for external clients.
- (3) As a result of the slight overall decrease in reserve investment balances.
- (4) Increase in rental and easement income.
- (5) No miscellaneous trade and scrap sales of surplus wholesale water inventory budgeted.

## 7.2 *Direct Expenditure - Personnel Costs*

The personnel expenditure differences are detailed as follows:

	<b>Budget 2001/02</b>	<b>Budget 2000/01</b>	<b>Budget Variance</b>
(1) Engineering Consultancy	836,922	811,117	25,805 U
(1) Operations (excluding Network)	1,811,573	1,849,980	38,407 F
(1) Strategy and Asset	389,636	387,786	1,850 U
(1) Support Services	334,701	370,514	35,813 F
(2) Laboratory Services	612,799	585,431	27,368 U
(2) Capex Project Resource Cost	(237,000)	(350,000)	113,000 U
Credit			
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	3,748,631	3,654,828	93,803 U
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- (1) The personnel cost budgets for Engineering Consultancy, Operations (excluding Network), Strategy and Asset and Support Services are all bottom up based and reflect expected costs based on the current staffing levels.
- (2) The Laboratory Services budget anticipates a reduction in staffing levels if business conditions do not improve.
- (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 2001/02</b>	<b>Budget 2000/01</b>	<b>Budget Variance</b>
(1) Engineering Consultancy	44,832	42,498	2,334 U
(2) Operations Administration	35,400	74,097	38,697 F
(3) Operations Production	3,430,950	3,310,630	120,320 U
(4) Operations Distribution	796,700	787,514	9,186 U
(5) Strategy and Asset	746,492	764,385	17,893 F
(6) Laboratory Services	119,903	99,210	20,698 U
(7) Support Services	53,839	53,346	493 U
	5,228,121	5,131,680	96,441 U
	5,228,121	5,131,680	96,441 U

- (1) Engineering Consultancy – budget constructed on a bottom up basis and in line with expected costs.
- (2) Operations Administration – budget constructed on a bottom up basis and in line with expected costs.
- (3) Operations Production – increased chemical costs, power costs and sundry supplies, \$40,550 U, \$20,000 U and \$59,770 U respectively.
- (4) Operations Distribution – lower power costs, \$20,000 F offset by various higher materials, supplies and service requirements, \$29,186 U.
- (5) Strategy and Asset – an anticipated decrease in property and rates charges of \$54,486 F is partially offset by increases elsewhere in the materials, supplies and services budget.
- (6) Laboratory Services – directly related to the quantum of work performed and increases in the cost of project materials and chemical supplies.
- (7) Support Services – 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 2001/02</b>	<b>Budget 2000/01</b>	<b>Budget Variance</b>
(1) Engineering Consultancy	3,000	3,000	-
(2) Operations Administration	-	6,000	6,000 F
(3) Operations Production	704,000	798,700	94,700 F
(3) Operations Distribution	166,000	101,000	65,000 U
(4) Strategy and Asset	936,200	951,300	15,100 F
(5) Laboratory Services	40,000	6,000	34,000 U
(6) Support Services	45,000	60,000	15,000 F
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	1,894,200	1,926,000	31,800 F
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- (1) Engineering Consultancy – budget constructed on a bottom up basis and in line with anticipated work schedules.
- (2) Operations Administration – no budgeted requirement foreseen for the next financial year.
- (3) Operations Production – ongoing reduction in maintenance requirements continue to drive this budgeted value down.
- (4) Operations Distribution – budget constructed on a bottom up basis and aligned to a higher level of maintenance activities compared to the previous year.
- (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 and in particular the requirement to outsource specific tests because of a lack of specialised equipment.
- (7) Support Services – budget constructed on a bottom up basis and in line with expected costs.

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

The financial cost reduction of \$471.8K has been achieved, as a result of 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. Plus the ongoing impact generated by the outcomes of the 1999/2000 asset revaluation exercise.

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

The net internal charges variance is \$94,193 U. This is made up of a considerable number of favourable and unfavourable variances, the most significant of which is a \$49,500 unfavourable variance associated with Resource Investigation's lower usage of the Laboratory Services facility.

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

The capital expenditure programme is detailed on pages 25 of The Water Group Proposed Operating Plan 2001-2010.

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 last year's proposed programme is the anticipated increase in the total cost of the Silverstream Diversion Pipeline Project and inclusion of the Kaitoke Main Pipeline Haywards Hill Relocation Project.

### 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 ongoing application of operating surpluses to debt repayment generates reduced financial costs and an accelerated reduction in 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