**Report 99.500**
26 August 1999
File: O/2/1/10

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

# Divisional Report

## 1. Purpose

- To comment on the Utility Services Division's performance for the year ended 30 June 1999.

- To outline various other relevant areas of interest or activity.

- To receive the attached activity reports to 31 July 1999 (Attachment 1).

## 2. Divisional Performance for 12 Months Ended 30 June 1999

The financial position to the year ended 30 June 1999 has now been virtually finalised and I am able to report to you the overall position for the Division. A detailed report will be provided with the presentation of the full Council's results.

### Water Supply

It is pleasing to report that overall we have had a successful year both operationally and financially.

To comment initially on the financial position, the following table shows the significantly improved results achieved over the last two years. This table is Water Supply excluding Network). Also shown is next years' budget.

| | Actual June 1997 $000 | Actual June 1998 $000 | Preadjusted Actual June 1999 $000 | Budget June 2000 $000 |
|---|---|---|---|---|
| Revenue | 30,083 | 29,045 | 29,224 | 27,837 |
| Operating Expenditure | 15,627 | 14,075 | 13,697 | 14,727 |
| Financial Costs | 8,243 | 6,985 | 6,480 | 5,899 |
| Depreciation | 4,028 | 4,121 | 4,335 | 4.563 |
| Total Expenditure | 27,898 | 25.181 | 24,512 | 25,189 |
| Surplus | 2,185 | 3,864 | 4,712 | 2,648 |
| Interest Savings* | | | 180 | |
| Corporate Savings* | | | 100 | |
| **Surplus** | **2,185** | **3,864** | **4,992** | **2,648** |

* *Our Divisions's share of Corporate Treasury interest savings and other corporate savings.*

The June 1999 result is $2.3M better than budgeted and $1.1M better than last year.

A number of abnormal items will reduce this position by some $900,000. These include a significant write down in assets associated with the transfer of the Karori reservoir land to Wellington City, a write down of some other assets and the impact on interest of the debt buy back. On the plus side a change in accounting treatment has resulted in the inclusion of some additional stock at Mabey Road. This will give a final reported surplus of $4.0M.

The overall impact of all of this will have debt moving down by about $4M from $70M to $66M. The planned debt position to June 1999 was $71.7M, a $5.7M improvement.

Both the Laboratory and Engineering Consultancy Group performed creditably with surpluses of $155,000 and $134,400 respectively.

To summarise some of the operational highlights and issues that were dealt with during the year were:

- financial and performance improvement
- benchmarked well with Watercare Services
- Excellent result from the consultant working on the treatment plant process review. The outcome being that no further major capital expenditure will be required at Te Marua, increasing through put while maintaining an A grading. Earlier reports suggested that capital expenditure in the area of $13M - $20M would be needed.
- The implementation of the new Mits-Hansen computerised Asset Management System nearly complete.

- The Environmental Management System development is well on the way to completion with ISO accreditation expected by the end of the first quarter next year.

- The publication of our first Annual Business Report.

- Significant analysis and testing relating to Y2K preparedness.

- Introduction of increased active catchment management in the Wainuiomata Orongorongo catchment.

- Management of the *giardia* break through at Wainuiomata.

- Management of Petone fluoridation issue.

- Ongoing initiatives with respect to water integration.

- Agreement to reduce levy by 4% ($1M) for 1999/2000 year.

The capital programme of some $5.0M also went pretty well this year with the completion or near completion of the following projects:

- Upgrading Waterloo Treatment Plant
- Chemical reaction tank at Wainuiomata Water Treatment Plant
- Orongorongo pipeline from intake to tunnel
- Rahui reservoir rising main

**Facilities Management Contract with Wellington City Council**

This has been a very demanding year for this group as they had to deliver a positive result with a reduced income of $700,000 and increased performance criteria. Our aim was to break even or produce a small surplus. Unfortunately in the final analysis we made a loss of around $100,000. Nothwithstanding this, I believe a very credible performance. We hope to recover that position this year.

**Plantation Forestry**

As expected we managed to break even in the last quarter and finished up with a net operating decifit of $774,000 which though is still some $200,000 worse than budgeted. Interest costs accounted for some $585,000 of the deficit. Given that we are now harvesting better quality logs we expect our position in the new financial year to improve.

The past year saw the completion, with the Wairarapa Division, of the forest exit strategy. We will shortly be reporting on the outcome of the sales scoping exercise that has been underway for the last couple of months.

All in all everybody was kept fairly busy!!

## 3. The New Financial Year

**Overall Strategic Goals**

Although we seem to have been saying this for a few years now, I think – to quote the jargon – this year will be the 'defining moment' in positioning water supply for the future. We are arriving at a watershed position with Wellington City as our current contract expires at the end of this financial year. In addition, the Government has handed the 'conch' back to local government with respect to water and waste restruturing. There will do doubt be a number of challenges for us to face in this regard this year.

**Operational Goals**

Trials have begun at Te Marua as the first stage of moving the plant to a direct filtration mode. The expectation is that we should be operating fully in this mode in three months time.

Wainuiomata should also be in its new mode of operation by this time as well. These changes, plus automation improvements, should be fully operational within six months. System optimisation project being undertaken by Beca will probably not be fully operational this year.

We expect some increase in costs as maintenance becomes more systematic with the outputs from the asset management system being available.

Overall, taking all this into account, operational savings are targeted at 10 percent this year. Beyond this year we expect the operational costs then to level out.

Factilities Management Contract goals are to improve performance and to break even financially.

Forestry goal for 1999/2000 is to deliver a break even position before financial costs.

## 4. Water Pricing

As a result of the workshop on 30 July, a very clear message was received from the four cities that the status quo on pricing was their unanimous wish. I presume that we can take from this that Hutt City no longer wish to pursue differential pricing of water. Interesting to note that 'regionalisation' of water is now of greater moment.

## 5. Recommendation

*That this report be received and contents noted.*

DAVID BENHAM
Divisional Manager, Utility Services

Attachment 1: Monthly Reports for Period Ended 31 July 1999