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**Report No. 02.289**

7 June 2002

File: B/05/02/01, G/04/01/01

ceh/reports/02.289

Report to the Policy, Finance and Strategy Committee  
from David Benham, Divisional Manager, Utility Services and  
Murray Kennedy, Strategy and Asset Manager

## **Wholesale Water Levy 2002/3 and End of Year Adjustment Levy 2001/2**

### **1. Purpose**

To set the wholesale water levy for 2002/3 and the end of year adjustment levies for 2001/2.

### **2. Background**

As is normal practice, the Council consulted with its water supply customers (the four metropolitan city councils) and the community about the water supply levy for 2002/3. The proposed Annual Plan outlined that the levy for the 2002/3 financial year would be 3 percent below the levy for the current year.

Presentations on the proposed levy have been made to Upper Hutt and Porirua City Councils. A presentation to Wellington City Council has not been able to be arranged. We hope to set up a separate session later in the year. Hutt City Council declined an offer to provide a presentation.

Last year the Council approved a change in the way the wholesale water levy is set (Report No. 01.300 of 30 April 2001 to the Utility Services Committee – *Method for Setting the Wholesale Water Levy*). A water levy will be set as usual for the year starting 1 July 2002. However, as a result of the change to the way the levy is set, the end of year adjustments also need to be set for the year ended 30 June 2002. These adjustments, as previously advised, are financially neutral to the Council. They only affect the allocation of the total levy between our customers.

### **3. Events Occurring Since the Proposed Annual Plan was Approved**

Two significant probable increases in costs have developed since the preparation of the public consultation version of the budgets in March 2002. They are insurance and rates as a result of the impending rating of utilities.

### 3.1 **Insurance**

Our budget numbers allowed a 20 percent increase in insurance premiums as compared with the previous year. However, our insurers have recently advised that that figure will in fact be in the order of an 80 percent increase. This then means our budgeted insurance expenditure is some \$292,000 less than that which is now required. We understand the reason for this significant increase is, in essence, a cost recovery exercise by the insurers as a result of the 11 September events in America.

Notwithstanding the premium increase, officers feel it is appropriate to continue to cover all existing assets not self-insured and to meet the premium required next year but complete a full review of our insurance cover prior to next year's Annual Plan approval. It should be noted that the Stuart Macaskill Lakes, tunnels and pipelines are self-insured. That self-insurance fund is expected to be approximately \$4.5 million by 30 June 2002. The intended insurance review will clearly need to consider future self-insurance options, given the altered operating conditions.

### 3.2 **Utility Rating**

Councillors will be aware of the overall issues here. Officers understand that there will be a significant impact on our water supply costs if all councils apply the rating proposed. In our case it is estimated to be in the order of \$1 million additional rates. This issue was clearly signalled in the Council's proposed Annual Plan and officers of the four city council customers are well aware of the potential impact of this matter on the 2002/3 levy.

### 3.3 **Summary**

Therefore, the sum of these two likely cost increases is approximately \$1.3 million. There is also some uncertainty as to likely electricity increases. We are currently out to tender and have allowed a 40 percent increase in the budget. Information suggests this may not be sufficient.

## 4. **Proposed 2002/3 Wholesale Water Levies**

The proposed levy for 2002/3, as contained in the Council's proposed Annual Plan, was a 3 percent reduction and represents a reduction of \$683,000. Given the cost increases mentioned above, we believe that the prudent approach would be for the Council not to proceed with the 3 percent cut in levy but leave the levy at the same level as the current year. Netting the two figures (removing the levy cut and adding the cost increases) gives an adverse cash flow change of \$617,000 (\$683,000 - \$1,300,000) that will need to be funded. If those changes are made and carrying the difference on the debt line, the graph in attachment 1 shows the adjusted debt profile projection.

Given the uncertainty, particularly in the utility rating area, there is no reason why the Council cannot reconsider the levy during the year if a full or partial utility rating charge does not eventuate. Once the rating impact is known, if necessary, the levy can be changed during the year. In the view of officers that is the prudent way forward.

If this position is approved, the levy for the 2002/3 financial year will be \$25,623,531 GST inclusive, the same as for 2001/2.

Levies for individual city councils would be as follows:

|                         | <b>2002/3 Levy (GST Inclusive) \$</b> |
|-------------------------|---------------------------------------|
| Hutt City Council       | 6,604,200                             |
| Porirua City Council    | 2,744,360                             |
| Upper Hutt City Council | 2,775,909                             |
| Wellington City Council | 13,499,062                            |
|                         | -----                                 |
| Total                   | 25,623,531                            |

For comparison purposes, the 2001/2 and 2002/3 levies are as follows:

**Table 1**

| Council                 | 2001/2 Levy<br>\$ GST inclusive) | 2002/3 Levy<br>\$ (GST inclusive) | Change<br>% | Change<br>\$ GST inclusive |
|-------------------------|----------------------------------|-----------------------------------|-------------|----------------------------|
| Hutt City Council       | 6,621,001                        | 6,604,200                         | (0.3)       | (16,801)                   |
| Porirua City Council    | 2,735,170                        | 2,744,360                         | 0.3         | 9,190                      |
| Upper Hutt City Council | 2,607,107                        | 2,775,909                         | 6.5         | 168,802                    |
| Wellington City Council | 13,660,253                       | 13,499,062                        | (1.2)       | (161,191)                  |
|                         | 25,623,531                       | 25,623,531                        | 0           | -                          |

## 5. Proposed End of Year Adjustment Levies for 2001/2

Because the percentage consumption assumed for each city in setting the 2001/2 levies a year ago differed from the actual consumption, year end adjustments are required. Consumption is based on the metering year that finished at the end of March 2002. Details of the adjustment levy calculations are included in attachment 2. A summary is in table 2 below:

**Table 2**

| Council                 | Adjustment for 2001/2<br>\$ (GST inclusive) |                 |
|-------------------------|---|-----------------|
| Hutt City Council       | (16,801)                                    | Refund from WRC |
| Porirua City Council    | 9,190                                       | To pay WRC      |
| Upper Hutt City Council | 168,802                                     | To pay WRC      |
| Wellington City Council | (161,191)                                   | Refund from WRC |

As previously advised, the adjustments are between the cities and do not affect Wellington Regional Council's total revenue. Refund cheques will be sent to Hutt and Wellington City Councils on 20 July 2002. Likewise, invoices will be sent to Porirua and Upper Hutt City Councils for payment on 20 July 2002.

## 6. Communications

It is suggested that a media release be made after the Council meeting.

## 7. Recommendations

(1) *That the Policy, Finance and Strategy Committee recommend to Council that:*

- *Pursuant to section 91 of the Wellington Regional Water*

*Board Act 1972, the wholesale water contributions payable by constituent authorities for 2002/3 be as follows:*

|                                | <b>2002/03 Levy</b><br><b>\$ (GST inclusive)</b> |
|--------------------------------|--|
| <i>Hutt City Council</i>       | 6,604,200  |
| <i>Porirua City Council</i>    | 2,744,360  |
| <i>Upper Hutt City Council</i> | 2,775,909  |
| <i>Wellington City Council</i> | 13,499,062                                       |
| <b>Total</b>                   | <b>25,623,531</b>                                |

➤ *The end of year adjustment levies for 2001/2 be as follows:*

|                                | <b>2001/2 Adjustments</b><br><b>\$ (GST inclusive)</b> |               |
|--------------------------------|--|---------------|
| <i>Hutt City Council</i>       | (16,801)   | <i>Credit</i> |
| <i>Porirua City Council</i>    | 9,190  | <i>Debit</i>  |
| <i>Upper Hutt City Council</i> | 168,802  | <i>Debit</i>  |
| <i>Wellington City Council</i> | (161,191)  | <i>Credit</i> |

➤ *Settlement take place on 20 July 2002.*

(2) *That the Council resolution be forwarded to each of the city councils under the Common Seal of the Wellington Regional Council.*

Report prepared by:

Approved for submission:

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Chief Financial Officer

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Divisional Manager, Utility Services

HOWARD STONE  
General Manager

#### **Attachments**

- 1 Debt Scenarios
- 2 Adjustment Calculations for 2001/2