

Report No:	RCN11-06-05
File No:	C756
Date:	31 May 2011
<b>Decision Required</b>	

## REPORT SUMMARY

**Report to:** Tasman District Council  
**Meeting Date:** 9 June 2011  
**Subject:** Nelson Regional Sewerage Business Unit - Surplus  
**Report Author:** Murray Staite, Corporate Services Manager

### EXECUTIVE SUMMARY

The 2010/2011 business plan of the Nelson Regional Sewerage Business Unit (NRSBU) outlined surpluses over the next ten years to be refunded to both the Nelson City Council (NCC) and Tasman District Council (TDC).

The surpluses outlined in the NRSBU business plan attached are substantial and how these surpluses are to be applied is a matter that requires careful consideration.

The report indicates that with the wastewater account being user-pays and the NRSBU being setup for the purposes of cost efficiency in wastewater disposal, any surplus received from the NRSBU should be retained within the wastewater account. The report goes on to recommend that these surpluses be used within the wastewater account to repay debt.

### RECOMMENDATION/S

It is recommended that Council accepts Option 2 which is that the NRSBU surplus be applied to the wastewater account for debt reduction.

### DRAFT RESOLUTION

**THAT the Tasman District Council receives the Nelson Regional Sewerage Business Unit – Surplus Report (RCN11-06-05) and applies annual surpluses from the Nelson Regional Sewerage Business Unit to the repayment of debt in the wastewater account, and that this is reflected in the final Annual Plan 2011/2012.**

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## **1. Purpose**

- 1.1 To consider how the expected surpluses from the Nelson Regional Sewerage Business Unit (NRSBU) should be applied.

## **2. Background**

- 2.1 At its meeting of 19 May 2011 Council considered a recommendation of the Joint Shareholders Committee to receive surpluses from the NRSBU, subject to debt being paid over 30 years. At that meeting the following resolution was passed:
- 2.2 **THAT the Tasman District Council:**
- a) **accepts the Joint Shareholders Committee’s recommendation that the Nelson Regional Sewerage Business Unit establish a principle that future operating surpluses be returned to the shareholders providing there is a provision to repay loans over 30 years; and**
  - b) **this resolution be subject to the Nelson City Council passing a similar resolution.**

## **3. Discussion**

- 3.1 The 2010/2011 business plan of the NRSBU outlined surpluses over the next 10 years to be refunded to both the Nelson City Council (NCC) and Tasman District Council (TDC).
- 3.2 The surpluses outlined in the NRSBU business plan attached are substantial and how these surpluses are to be applied is a matter that requires careful consideration.

### ***Revenue and Financing policy***

- 3.3 A review of Council's revenue and financing policy in regard to wastewater (Ten Year Plan Vol 2 pages 199 to 201) states that the direct benefits of wastewater treatment fall on those who are connected. The Council's wastewater activity is clearly defined in the Ten Year Plan as including the Bell Island wastewater treatment plant. With wastewater being a user- pays account those who are direct beneficiaries of the service pay for that service. Using the same logic, surpluses returned from the operation of that wastewater service would be expected to apply to those that originally paid.

### ***Owner versus user***

- 3.4 It could be argued that the surpluses being returned from the NRSBU are a return on equity to the owners. If that argument is accepted the NRSBU surplus should be treated in a similar fashion to dividends from the likes of Council's commercial assets Port Nelson Ltd (PNL) and Nelson Airport Ltd (NAL).
- 3.5 There is, however, a clear difference between commercial assets like PNL and NAL and the NRSBU. Council's commercial assets are largely retained to provide a commercial return to both owner councils while the NRSBU was set up for the purposes of cost efficiency<sup>1</sup> in relation to wastewater disposal. Put simply, the NRSBU was never intended to be a commercial asset making returns for Council.
- 3.6 Additionally if we refer to the NCC report attached to the May 19 Council report (Appendix 1) we can see that the surplus comprises reduced operating costs and a return on owners equity.
- 3.7 The NCC report goes on to state that future NRSBU increases in contributions from the two councils can be largely offset by receiving these surpluses.
- 3.8 To allow these surpluses to be used outside the wastewater account would see additional future costs falling upon the users of the wastewater account while denying them access to the surpluses.

### ***Previous surpluses***

- 3.9 Council has previously considered how unexpected surpluses should be treated. As part of the special 2007 Port Nelson Ltd dividend, Council, in

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<sup>1</sup> NRSBU Strategic Plan 2010-2011

January 2008 after consulting with the public, applied the special dividend to the reduction of debt. While this action in itself did not necessarily set a precedent it does provide a clear indication as to the wider community's view on the application of surpluses.

#### **4. Options**

##### **4.1 Option 1. Receive the surpluses and apply direct to the wastewater account as a reduction in operating costs.**

While this option appears at first to be attractive (a reduction in the pan charge in year 1 of approximately \$46.56) it would result in a significant increase in the forthcoming years' pan charges if future surpluses were not realised. This option is not recommended.

##### **4.2 Option 2. Receive the surplus and apply direct to the wastewater account as a repayment in debt.**

This option would see the pan charge reduce by approximately \$6.50 through the repayment of existing debt. While the repayment of debt is not large it does reduce the existing 27.5 million debt in the wastewater account and is an ongoing reduction. It has the advantage that should future surpluses not be realised from the NRSBU large changes to the pan charge could be avoided. This option is recommended.

##### **4.3 Option 3. Receive the surplus and apply to each activity of council as a operating expense reduction.**

This option of applying the surplus to activities outside the wastewater account would appear to be in direct conflict with Council's Revenue and Finance Policy. To apply this option could expose council to a future legal challenge. This option is not recommended.

#### **5. Significance**

##### **5.1 In accordance with Council's policy on Significance, this matter is not considered significant.**

## 6. Recommendation

6.1 It is recommended that Council accepts Option 2.

## 7. Timeline

7.1 It is understood that the first return of surplus will be received during the first quarter of the new financial year.

## 8. Draft Resolution

**THAT the Tasman District Council receives the Nelson Regional Sewerage Business Unit – Surplus Report (RCN11-06-05) and applies annual surpluses from the Nelson Regional Sewerage Business Unit to the repayment of debt in the wastewater account, and that this is reflected in the final Annual Plan 2011/2012.**

Murray Staite  
Corporate Services Manager

### **Appendices**

Appendix One – Proposal to Distribute Future Business Unit Surpluses