

# Board Paper

## October 2013

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### **Title: Unbudgeted Activities**

#### **Purpose:**

This paper seeks approval of the Board for several activities not included in the current 2013/14 budget.

The paper describes these new activities and outlines how they will be accommodated within the current budget. One activity will require commitment of additional capital – beyond that provided for in the current budget.

#### **Background**

Three key activities have been identified that were not included in the preparation of the current OWL budget.

These activities are:

1. Implementation of an electricity retail pilot – total cost \$55k; 2013/14 cost \$47k (expense)
2. Employ Environmental Manager – total cost \$80k - \$100k pa; 2013/14 cost \$42k (expense)
3. Alterations to Opuha House office accommodation – up to \$100k (capital)

The proposal for the electricity retail pilot has been presented previously to the Board (July 2013) and an update has been included in the October Board Papers.

The proposal to employ an Environmental Manager is a firming up on our resourcing requirements as we move into a new level of water management and compliance. The ASM programme is a foundation to our environmental management under the new LWRP and I believe we need to have an in-house capability that covers the science and planning aspects of this field. I believe it is preferable to have a person employed as we roll-out the ASM programme from the start of the 2014 calendar year. The Environmental Manager's work scope will extend beyond just ASM to include wider regulatory and planning activities. I have identified a very suitable candidate for this role but may still advertise the position.

We have been looking at the office accommodation set-up at Opuha House and have some conceptual ideas to improve the arrangement to provide for current and future staffing needs. The key aspects are:

- Shift Aimee (Financial Manager) from the Boardroom back into the office area
- Provide office accommodation for an Environmental Manager
- Relocate the operations group towards the rear and provide access from the yard rather than through the front door
- Free up the office for the CEO

#### **Discussion**

##### **Electricity Retail Pilot**

The electricity retail pilot is covered in a separate Board Paper.

## **Environmental Manager Role**

In response to the developments in the regulatory environment regarding water use and management, OWL has begun the implementation of an Audited Self Management System. The strategy and framework of this system was presented to the OWL Board in July 2012 - just prior to the notification of the proposed Land and Water Regional Plan (pLWRP). The pLWRP has been going through the submissions and hearings process which has now concluded. The next step will be for the hearing commissioners to provide their recommendations which will form the basis for the operative plan. The LWRP will set limits on land and water use (as required under the National Policy Statement on Freshwater) and the Plan favours management of farming activities (in regards to water use and related land activities) by overarching irrigation schemes such as OWL. This has been a fundamental driver for the current restructure of the Opuha group.

The LWRP is a key aspect of the CWMS and there is a programme for the effective rollout and implementation of the Plan that includes the establishment of sub-regional plans that will determine nutrient limits within catchments. Where schemes such as OWL are operating, the Plan is expected to provide for the schemes to have a key role in the management of the nutrient allocations. An ASM programme is the prescribed approach to this under the Plan and we have been mindful of this future requirement as we have developed and piloted our ASM programme.

The management of an ASM programme within OWL will have a significant resource requirement. Current examples of schemes that have established ASM programmes include Morven Glenavy Ikawai (MGI) and North Otago Irrigation Co (NOIC). NOIC has had a full time Environmental Manager on staff since 2011 (previously engaged as a consultant) and MGI have continued to engage Claire Mulcock and Aqualinc to manage their ASM programme. Mayfield Hynds Irrigation have recently advertised for a specialist environmental role within the company. We have engaged Claire Mulcock to assist with the development of our system and the pilot programme in 2013. It is my expectation that the new Environmental Manager would take over from Claire (in a transitional period) as we undertake the external audit of our pilot farmers and then roll out the ASM programme to a wider group.

As well as managing the ASM programme, the OWL EM role will include active participation in the regulatory and planning process. This is an area in the recent past, I believe, where we have not been as well resourced and pro-active as we should have. On our immediate horizon in this area is the LWRP – adapting to comply and manage within the Plan when it is made operative (within the next six months?) as well as the on-going process of developing the OOP Zone sub-regional chapter over the next 3 years. We also have some of our own consent review programmes such as the Saleyards Bridge flow measurement.

The key knowledge and skills required of the Environmental Manager include a good understanding of planning frameworks and processes; an understanding of ASM; a knowledge of farming activities and environmental effects; an empathy for the farming fraternity; excellent communication skills for interaction with farmers, regulators, and community members and representatives; very good written and computer skills and an ability to manage an information system.

I would be seeking to confirm an appointment prior to Xmas with a start date late January. I believe I have identified an excellent candidate for this role, however the Board may have views on advertising for a vacancy such as this.

I would estimate a salary of ~\$85k - \$90k for this role, with a vehicle provided on top of this salary. The budget implications are covered in the following section.

## **Alterations to the accommodation arrangements at Opuha House**

The considerations of additional staff have prompted us to review the office accommodation arrangements at Opuha House. Already, the arrangement is less than ideal with Aimee located in the Boardroom and needing to relocate anytime the Boardroom is required during the day. The shared office arrangement with the CEO and Office Manager has some operational benefits but a separate office is preferable for the CEO – in particular for small meetings with one or two visitors and also for the different work patterns (both roles involve a lot of telephone conversations). The current arrangement has visitors arriving through the front door straight into the operations area.

If an Environmental Manager joins the team, there is an option to refit the Operations Manager's office to accommodate two people (OM and EM) as an interim measure.

With the establishment of the new storage shed and the relocation of the containers (one to go and the archives one to be located alongside the storage shed) the back yard area will become more of an operational space.

The staff have proposed a conceptual rearrangement that would involve an addition to the office area towards the back of the building that would become the operations group area and have an entrance directly out to the back yard and storage shed/workshop area. The Office Manager and Financial Manager (Christine and Aimee) would relocate to the front area (current Racemen's area) which would then become the office/reception area. The alterations would provide for another office for the Environmental Manager (adapt current Ops Manager office?). CEO to remain in the current office but the existing space would include a small meeting table again.

The plan to progress this option would be to engage an architectural draughtsman to prepare some drawings and provisional cost estimate. We would tender for the construction.

My main experience with building alterations is that they always seem to come with disproportionately high costs so while a budget of ~\$100k may seem high, I anticipate that we may be looking at that sort of figure.

## **Budget**

None of the three activities identified above were specifically provided for in the 2013/14 budget.

We do have a \$40k budget for Management and Strategic Projects and it is proposed that this be allocated to electricity pilot project which is estimated to cost approximately \$47k this financial year. We will realise some budget savings from our decision to pay our insurance premium in full in June. We had made budget provision to use a premium funding facility as we have done in previous years so this \$15k provision can be used to top up for the electricity pilot.

Our ASM budget for the year was \$61k to cover mainly consultant costs for the ASM pilot including the external audit and the rollout of the wider programme in the second quarter 2014. We have spent \$8k YTD and it is estimated that the remaining expenditure may be able to be limited to \$20k if we have the Environmental Manager on board before February. This would leave \$33k available to contribute to the Environmental Manager costs. I estimate the costs for this year for the Environmental Manager would be approximately \$42k – salary for five months plus running and financing cost for the vehicle.

I am anticipating some savings ~\$10k – from our training budget as a result of the deferral of a training course for Stephen and the allocation of most of the costs of my Australia trip being accounted for in 2012/13.

The proposed alterations to the office would be capital works. Our capital budget for this year amounted to approximately \$260k (excluding the DSW modifications). At present it is expected that this full capital budget will still be required for the activities originally budgeted so the office renovations would be additional expenditure. There would be a small depreciation charge if the work was completed prior to June 30<sup>th</sup>. From a cashflow point of view, we would have sufficient funds on hand to cover the additional expenditure for the office renovations.

At present we are tracking (~\$77k) under budget on expenditure overall although some of this (~35k) is timing relating engineering work and studies. The big unknown is the final cost of the restructure and with the comment from our legal advisors that there is more work involved than they had originally anticipated, I expect there may be some pressure on the budget from this activity. Our current budget is for \$165k.

Our revenue is currently \$61k under budget although we will recover this to a positive \$88k position at the end of October and I expect we will at least maintain that position for the next three months, given our water storage position. As always, generation revenue for the period beyond February remains uncertain especially for May and June when we revert to Spot Price.

Our original budget surplus, after depreciation is \$252k.

The OWL budget is based on the current structure and, as yet, we have not prepared a consolidated budget for the new entity. I have taken the position, at this stage, that the consolidated entities financial performance should be no worse than the sum of the individual entities. The sub-schemes are normally managed to provide a minimal net cash surplus with the depreciation charge being predominantly accounted for as an accumulating tax loss. On this basis, I have only accounted for the impact of these additional activities in the OWL budget.

## Conclusion and Recommendations

The additional operational activities – the electricity retail pilot and the appointment of an Environmental Manager – can be accommodated within the current budget through the reallocation of funds and some realised savings.

The proposal to carry out building alterations at Opuha House will require capital expenditure above budget but there is not expected to be any cashflow/funding issues. A construction cost estimate will be presented to the Board prior to seeking tenders. An initial commitment to acquire plans and a construction cost estimate is sought from the Board.

It is recommended that the Board:

1. Approve expenditure on the electricity pilot programme
2. Approve the appointment of an Environmental Manager
3. Approve the development of plans and a construction cost estimate to alter the office accommodation at Opuha House.



Tony McCormick  
Chief Executive  
28<sup>th</sup> October 2013

### Attachments:

1. Nil