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Report 01.653

23 August 2001

File: Y/1/1/0

Y/1/1/1/8

Report to the Rural Services and Wairarapa Committee
from Ian Gunn, Manager, Operations

Scheme Reserves

1. Purpose

To seek the Committee's approval for the proposed Scheme Reserve Targets and annual contributions as developed by a joint working party of Wellington and Wairarapa staff.

2. Background

During the 1999/2000 financial year a comprehensive review of the river management schemes was led by Greg Schollum and Colin Wright.

One of the recommendations from this review was to further analyse the Scheme Reserve Targets and the annual contributions to the flood damage reserves. This report outlines the findings of this review.

The staff involved in the review included Greg Schollum, Paul Laplanche, Kerry Saywell, Colin Wright, Stephen Hill, Ian Heslop and Ian Gunn.

Two Reserves are considered – the Scheme Reserve Target (SRT) for flood events less than 20 year return periods, and the Major Flood Damage Reserve Fund (MFDRF) for events larger than 20 year flood events. The Council contributes from general rates to both of these reserves annually –

- SRT ... \$100,000
- MFDRF ... \$50,000

The MRDRF is a relatively recent innovation. Its purpose is to build up a reserve over time which will assist flood damage repairs after a major event.

2. Review

Flood damage data and the return period of actual flood events was prepared for each river scheme over the eleven year period 1990 to 2000 inclusive, as follows:-

| | LWVDS | Waiohine | Upper Ruamahanga | Waipoua | Waingawa |
|----------------------|-------------|-------------|------------------|-----------|-----------|
| Total Flood Damage | \$1,697,000 | \$1,508,000 | \$1,004,000 | \$359,000 | \$193,000 |
| Average Flood Damage | \$ 154,273 | \$ 137,091 | \$ 91,273 | \$ 32,636 | \$ 17,545 |

This data was used to develop a relationship between flood damage and flood events from 2 to 100 year return periods. Annualised damages were then calculated. (This is the average of the total estimated damages that could occur within a 100 year period).

To align the data with the two reserves the annualised damages were split into below and above 20 year events, as follows:

| | LWVDS | Waiohine | Upper Ruamahanga | Waipoua | Waingawa |
|--|-----------|-----------|------------------|----------|-----------|
| Annualised damages up to 20 year event | \$ 37,500 | \$105,750 | \$ 33,500 | \$ 8,250 | \$ 10,875 |
| Annualised damage above 20 year event | \$ 27,400 | \$ 26,075 | \$ 18,860 | \$ 7,980 | \$ 6,400 |

This shows that on an annual basis more damage occurs in the smaller events than the larger events, with a significant level of damage in the smaller events in the Waiohine River.

A further assessment was made of the estimated damage in an extreme event (100 years). This has been used to determine the target level for the MFDRF target, assuming there is a 50% contribution from general rates. The SRT for each scheme is half the estimated 20 year flood damage.

Table 1 shows the current position of each Scheme. It shows that only the LWVDS is presently in credit. The Waiohine and Waipoua Rivers are in debit to the tune of \$215,000 and \$67,200 respectively.

The totals for the SRT and MFDRF annual inputs from the schemes are similar to the current contributions of \$100,000 and \$50,000 respectively. A comparison of the proposed individual scheme reserve inputs with the current annual surplus shows that, once the scheme deficits are repaid, increased funds are needed for the reserves of the Waipoua (urban) and Upper Ruamahanga River Schemes. Discussions need to occur with the Masterton District Council regarding the Waipoua River urban contributions.

The following hierarchy of funding for river schemes is recommended by the working party:

- Priority One Maintenance of the schemes so that the assets are maintained.
- Priority Two Repayment of any deficit (the policy is to repay the deficits within 3 years).
- Priority Three Payment to both of the scheme reserve funds (based on up to date annualised damages).
- Priority Four
 - New capital works (may increase in priority if it significantly reduces the threat of damage).
 - Extraordinary maintenance.
- Priority Five Assessment and possible establishment of a reserve for earthquake damage.

At the present time in the majority of schemes the current focus is to “do the maintenance” and repay the deficit within 3 years. It was agreed that the implementation of the annual contribution to the annualised damage reserves would occur –

- once a scheme is out of deficit, or
- if a scheme goes further into debt

Should further flood damage occur while in deficit, a scheme’s rating requirement will be based on –

- completing the annual maintenance programme
- paying off the original deficit in the original time period
- adjusting the annualised damages to include all the latest damage
- paying off the “additional deficit” over the next 3 year period

The increased rates would be held across the whole period to ensure that the reserves have built up to satisfy the annualised damage assessment. Normally annualised damages would be reviewed –

- at each Long Term Financial Strategy assessment, or
- at the time a scheme goes into deficit.

3. Communications

The Scheme Reserve targets will be discussed in detail with each Scheme Advisory Committee at their annual meetings.

4. Conclusion

The recent analysis has highlighted that the global quantum of the current contributions to reserves is of the right order. However, adjustments need to be made between individual schemes.

5. Recommendation

- (1) *That the proposed reserve targets for the Scheme Reserve Targets and Major Flood Damage Reserve Fund be adopted.*
- (2) *That the proposed hierarchy of funding for the river schemes, as outlined in the report, be adopted.*
- (3) *That the full annual contributions to reserves be implemented once a scheme has repaid its current deficit or goes into further deficit.*

Report prepared by:

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