

Wellington Cable Car Ltd

Business Plan

2012/2013

**EXECUTIVE
SUMMARY**

The budgeted overall income for 2012/13 is \$9,935,000, the budgeted overall expenditure is \$9,642,000 and the budgeted overall surplus after tax is \$294,000

All expenditure on the trolley bus overhead network has been assumed to be expensed from both an accounting and income tax perspective.

In normal circumstances, the trolley bus overhead network would be budgeted to operate at a zero surplus on the basis that GWRC funds all of the overhead network expenditure. However, GWRC does not fund depreciation on the ground that it is meeting the full cost of overhead network replacements. As there is residual depreciation of the overhead network to be accounted for by WCCL, an allowance for depreciation on the residual overhead network assets has been included as an expense against the overhead income, resulting in a deficit of \$120,000 for the trolley bus overhead network division of the business. This deficit is covered by the other operations of the company.

Cable car revenue is budgeted at \$2,223,000

- This reflects passenger trips budgeted to be the same as in 2011/12 plus an allowance for trips to be taken by visitors on the additional cruise ships visiting Wellington over the 2012/13 summer season.
- The revenue per trip is based on that currently achieved in the 2011/12 year plus an increase to be made due to additional costs.

The cable car activity is budgeted to have an operating surplus of \$605,000, which contributes to meeting the administration costs of the company activities division (i.e. activities other than the trolley bus overhead network).

There is a budgeted net operating surplus from external activities of \$258,000. The net operating surplus from the external activities also contributes to meeting the administration costs of the company activities division.

There is also a budgeted net surplus of \$16,000 from the operating of the new electric bus service in the Botanical Gardens, which will be commencing operation in Spring 2012. As with the external activities part of the business, the net surplus contributes to meeting the administration costs of the company activities division (i.e. activities other than the trolley bus overhead network).

No allowance has been made for increases in pole user charges from third parties. Further, no amount has been budgeted for revenue from third parties currently claiming not to be liable for charges to use the company's poles.

After meeting the budgeted administration expenses (\$316,000) relating to the company activities division and the residual depreciation of the trolley bus overhead network (\$120,000) from the contributions from the cable car activity and the external activities, there is a budgeted surplus of \$427,000 before tax.

After budgeting for tax expense (currently by way of a subvention payment payable to WCC) of \$134,000, the budgeted net surplus of the company after tax is \$294,000.

The capital expenditure requirement for the 2012/13 year is budgeted as follows:

- \$937,500 for replacement of Kelburn cable car terminus (Plus \$937,500 also in 2013/14);
- \$40,000 in relation to power factor correction equipment for the cable car;
- \$30,000 for replacement of Cable Car Control System Workstation;
- \$100,000 allowance for as yet unspecified items.
- \$65,000 for new flat deck truck for use on maintenance of the overhead network.

**BASIS OF
BUSINESS
PLAN**

The Business plan and budget for 2012/13 is based on:-

1. The 2012/13 Overhead Network Asset Management Plan, as updated, and agreed 2012/13 budget with GWRC
2. The 2008/09 Cable Car Asset Management Plan, as updated
3. An update of the 2011/12 budget

The updated estimates of costs included in both Asset Management Plans are incorporated in this Business Plan.

The formal funding agreement related to the trolley overhead maintenance has now been executed. Payments made by GWRC in the 2011/12 year are in accordance with this.

The 2012/13 Trolley Bus Overhead Network cost budget has been submitted to GWRC, with formal approval awaited, (but subject to cost cases for the major expenditure items being approved by GWRC prior to WCCL committing to that expenditure).

For the purposes of this plan it is assumed that GWRC will meet the trolley bus overhead network costs in full, except for the residual depreciation. This will result in the deficit of \$120,000 in the overhead network division.

The Cable Car service is funded entirely from fares. Based on the current year to date position for the 2011/12 year, we consider it appropriate to assume the patronage for 2012/13 will be equal to that as originally budgeted for the 2011/12 year, plus an allowance for trips to be taken by visitors on the additional cruise ships visiting Wellington over the 2012/13 summer season. The revenue per passenger trip is based on the rates achieved in 2011/12 plus an increase to be made due to additional costs.

The marketing activities to be undertaken in 2012/13 for the cable car service will be firmly based on the strategy to develop cable car patronage. The marketing message extends beyond a five or ten minute ride on the cable car, to ways in which even a whole day could be spent experiencing the attractions in the vicinity of both the Kelburn and Lambton Quay terminals.

Revenue from other sources include:

1. Pole related work for third parties;
2. Undertaking third party overhead network projects;
3. Interest;
4. Pole User Charges;
5. Mark ups on high vehicle escorts under the trolley bus overhead network and the associated contractor costs for power disconnections and safety measures;
6. Electric Bus service to be operated within Botanical Garden.

Pole work is uncertain since it is dependent on third parties whose plans are communicated to WCCL at short notice.

The number of significant third party overhead network projects budgeted to be undertaken during the 2012/13 year, is less than has been the case in the past three to four years due to tightened financial circumstances or changes in development plans of potential clients. The principal project is associated with an upgrade of Adelaide Road.

Interest will be earned on bank investments and for financing the inventory held for use on the trolley bus overhead network, noting however that it is forecast interest income will significantly reduce once the construction of the Kelburn Terminal commences.

Pole user charges are based on the payments from existing pole licences.

WCCL charges a mark-up on the contractor costs of carrying out escorting of vehicles and de-energising of the network to allow high loads to pass through the city.

<p style="text-align: center;">REVENUE AND ASSOCIATED RISKS</p> <hr/>	<p>There are risks to WCCL’s revenue which could mean that the planned surplus will not be achieved.</p> <p>GWRC has not yet confirmed in writing to WCCL that the funding to meet the Trolley Bus Overhead Network Asset Management Plan has been approved for the 2012/13 year. However, the potential risk that it will not be approved at the funding amounts included in this Business Plan is mitigated by the contractual provision of the Funding Agreement with GWRC that in the event of a lesser amount of funding being approved by GWRC, the parties are to finalise and agree the work to be undertaken to ensure that the resulting Trolley Bus Overhead Network Asset Management Plan, as amended, is consistent with that lesser amount of funding.</p> <p>It is WCCL’s objective to achieve additional revenue from pole users. However, the completion of this is seen as a 1-2 year process, and given the uncertainty, no increase is budgeted for the Plan period.</p> <p>Extended periods of adverse weather could reduce cable car revenue; on the other hand any “events” in the city may have a positive impact.</p>
<p style="text-align: center;">EXPENDITURE AND ASSOCIATED RISKS</p> <hr/>	<p>The overhead network expenditure carries risks associated with increases in metal prices (principally copper), adverse movements in foreign exchange and the potential for unplanned expenditure to be incurred.</p> <p>While GWRC are expected to meet all maintenance costs as budgeted, there could be some shortfalls if adequate contingency funding cannot be negotiated with GWRC in the event of abnormal costs being faced. The maintenance contract labour costs are fixed for the period, but there may be some risks associated with generally inflationary effects on other minor contracts.</p> <p>Cable car expenditure is mature and it is unlikely that operating costs will escalate out of control. The maintenance requirements on the cable car are not at critical levels and hence there is a degree of control through deferment, however there are cost requirements for a few major items such as, power factor correction, replacement of gates and the construction of the new terminal at Kelburn. Although previous assessments to date have not indicated major issues being likely, provision has been made in 2012/13 to undertake detailed seismic assessment of the cable car tunnels.</p> <p>Administration costs are well established with the major variables being legal and consultant costs associated with the establishment of the pole user charges and financial reporting, and strategic corporate issues.</p>

CAPITAL
WORK

In relation to the trolley bus overhead network, the asset condition assessments indicate the assets that should be replaced.

The Capital expenditure requirement for the 2012/13 year is budgeted as follows:

- Budget provision of \$65,000 (subject to approval by GWRC of the cost case) has been made for a new flat deck truck, for use on maintenance of the overhead network.
- The cable car service has budgeted capital work of \$270,000, some being carried forward from last year.
- The estimated replacement cost of the Kelburn terminal, \$1,875,000, will be principally financed from WCCL's own resources (\$1,260,000) including the dividend retention policy approved by WCC, which has now ceased. The balance of funds will be obtained as a bank term loan.
- Other capital work is \$40,000 in relation to power factor correction equipment for the cable car drive system and \$100,000 budgeted for as yet unspecified capital expenditure.