



Report 07.337  
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Committee Policy, Finance and Strategy  
Author Barry Turfrey, Chief Financial Officer  
Jane Bradbury, Divisional Manager Corporate and Strategy

## **Finalisation of the 2007/08 Annual Plan and Approval of Amendments to the 2006-16 LTCCP**

### **1. Purpose**

- To note the latest position in relation to the projected level of regional rates and the bulk water levy.
- To seek approval for new items and other adjustments to be made to the 2007/08 Annual Plan arising from the public consultation process, or as a result of changes in circumstances since the proposed document was adopted.
- To seek approval to rebudget expenditure from 2006/07 to the 2007/08 Annual Plan.
- To seek approval for the level of regional rates and the bulk water levy to be incorporated into the final version of the 2007/08 Annual Plan.
- To seek approval for amendments to the Council's 2006-16 Long-term Council Community Plan (LTCCP).

### **2. Significance of Decision**

The content of this report is the result of the Council's consultation with the public which took the form of submissions being made on the Proposed 2007/08 Annual Plan, incorporating a proposed amendment to the 2006-16 LTCCP. In addition, the inclusion of the Wellington Regional Strategy into the 2006-16 LTCCP was consulted on in September 2006. The formal submission processes undertaken by the Council complied with the decision-making and special consultative procedures set out in Sections 76 to 79 and 83 to 85 of the Local Government Act 2002.

### **3. Background**

#### **3.1 Proposed 2007/08 Annual Plan**

As Councillors will recall, the process of preparing the 2007/08 Annual Plan started late last year with a series of Council workshops on a range of Greater Wellington's specific activity areas and the preparation of business plans by each of the departmental managers within the Council. The business plans were reviewed by Councillors during January 2007 and the Proposed 2007/08 Annual Plan was prepared.

The Proposed Annual Plan, excluding the Economic Development Agency (EDA) rate, contained a rate increase of 6.4%, with a 3.0% increase in the bulk water levy. When the EDA rate of 6.5% was included, the overall rate increase was 12.9%. The Proposed Plan was approved for public consultation by Council on 13 March. The consultation period ran from 5 April to 7 May, although submissions were received up to 18 May. The Planning and Monitoring Sub-Committee heard oral submissions and considered all submissions on 23 and 24 May.

In addition to the Proposed Annual Plan document, it has been our normal practice each year, before the final Annual Plan is adopted, for officers to recommend to Council those items that are required to be rebudgeted from the previous year. The general principle followed is that if expenditure on a project cannot be completed in a given year, it can be rebudgeted in another year (normally the following year), provided it is still a Council priority and there is sufficient funding available.

Any new items of expenditure and other adjustments which have arisen since the Proposed Annual Plan was prepared also need to be considered.

After the regional rates and bulk water levy have been approved by Council, they will be incorporated into the final version of the 2007/08 Annual Plan for adoption by Council on 28 June 2007, subject to any final amendments requested by Council.

#### **3.2 Amendments to the 2006-16 LTCCP**

Along with the Proposed 2007/08 Annual Plan, the Council has consulted on two amendments to its 2006-16 LTCCP as follows:

- Greater Wellington, at the request of the city and district councils of the region, has taken on the role of "keeper" of the Wellington Regional Strategy. An amendment to the 2006-16 Ten Year Plan (LTCCP) is necessary to enable Greater Wellington to take on this new activity. This proposed amendment was consulted on in September 2006. The process followed Section 16 of the Local Government Act 2002 with the successful outcome of a mediation initiated through the process. The Wellington Regional Strategy can now be incorporated into the amended LTCCP.

- Section 2.1 of the Revenue and Finance Policy requires amendment to provide greater equity between current and future ratepayers in relation to funding certain rail infrastructure. The amendment will allow us to debt fund certain operating expenditure on rail infrastructure assets over a longer time period than the 5 years of the current policy, for up to 75% of the expected life of the asset. Although there are no significant financial consequences, we are required by the Local Government Act 2002 to make a formal amendment to the LTCCP.

Section 2.1 of the Revenue and Financing Policy provides for circumstances where Greater Wellington will consider funding operating expenditure from sources other than its operating revenue. The proposed amendment (in italics below) replaces the last bullet point in the existing policy:

- *Where the expenditure relates to the provision of passenger rail services, benefits of that expenditure extend beyond one year, and Greater Wellington is unable to obtain an ownership interest in the asset created; in this situation, Greater Wellington may loan fund the expenditure over a period not exceeding 75% of the expected useful life of that asset.*

#### **4. Results of the Public Consultation process on the “Proposed 2007/08 Annual Plan, including an amendment to the 2006-16 LTCCP”**

Following public submissions, one additional budget item has been included in the 2007/08 Annual Plan, namely \$20,000 for Whitireia Park.

Other issues resulting from the public consultation process relate to matters of an operational nature and will not affect the final 2007/08 Annual Plan.

Public submissions on the LTCCP amendment to Section 2.1 of the Revenue and Finance Policy were largely supportive and the amendment can be included in the amended LTCCP.

#### **5. Adjustment to the Proposed 2007/08 Annual Plan**

There will be some minor editing for the final version of the Annual Plan. In addition, the following adjustments have been made to the Proposed 2007/08 Annual Plan budget as a result of new information and changed assumptions.

## **5.1 Rail contract, additional rates of \$740,000**

The proposed budget for the rail contract was prepared prior to Toll Consolidated NZ Ltd (Toll) commencing their budget for the Tranz Metro operation. A number of discussions have been held between Toll and Greater Wellington regarding the final budget for 2007/08. As a result a number of costs for Tranz Metro have increased significantly over those originally estimated by Greater Wellington. These higher costs are due to increases in labour, fuel and traction, and purchased services. At this stage discussions are still continuing between the parties in respect of the 2007/08 Business Plan for Tranz Metro. There may be some reduction in these numbers. However, at this stage they cannot be quantified and are unlikely to be significant. Therefore, it is considered prudent to budget for the higher amount.

Discussions are being held between Greater Wellington and Toll to ensure that the delays in the preparation of Tranz Metro's budget next year are not repeated.

## **5.2 Rail heavy maintenance, additional rates of \$239,000**

As noted in Section 5.1 above, there has been a mismatch in the timing of the preparation of budgets by Greater Wellington and Toll which has required an update of the budgets in respect of rail. The original budget prepared by Greater Wellington had not allowed for some items of rail heavy maintenance, totalling some \$239,000.

## **5.3 Rail – other maintenance reductions, saving in rates of \$200,000**

The arrival of the SW cars has reduced the maintenance requirement for 2007/08 by \$200,000 in respect of the existing A class carriages.

## **5.4 Trolley bus contract, additional rates of \$178,000**

The budget for the trolley bus contract was prepared prior to the finalisation of the contract. Updated information, including the latest inflation data, indicates that an additional \$178,000 is required.

## **5.5 Various transport items, savings of \$11,000**

There have been a number of small changes to a variety of Public Transport projects resulting in savings of \$11,000.

## **5.6 Beacon Hill upgrade, additional rates of \$30,000**

At its meeting on 8 May 2007, Council approved an additional \$300,000 for the construction of a new Beacon Hill Communications Station to be considered for inclusion in the final Annual Plan (Report 07.206). The rate impact of this expenditure for 2007/08 is \$30,000.

## **5.7 Building renovations, additional rates of \$30,000**

There are a number of small building renovations in respect of Pringle House. These involve the ground floor and floors 8 and 9. The rate impact of these renovations is \$30,000.

## **5.8 Higher external interest rates, additional rates of \$150,000**

The interest rate used in setting the cost of funding in the Proposed Annual Plan was 7.25%. However, the Reserve Bank has increased the Official Cash Rate (OCR) over the last three months by 0.50%. This in turn has increased the 90 day bank bill rate to 8.10%, which is significantly higher than Greater Wellington's original assumption of 7.25%. It is possible that the Reserve Bank will increase the OCR once more. The external interest rate for the final Annual Plan has been raised to 8.25% which increases finance costs by \$150,000.

## **5.9 Lower income from WRC Holdings Group, \$330,000**

WRC Holdings has a \$44 million loan with Commonwealth Bank. The rise in interest rates noted elsewhere in this report has increased the interest costs by \$330,000.

## **5.10 Lower Kopuaranga River Enhancement, saving of \$21,000**

A smaller river scheme was recently approved by the community, resulting in a saving of \$21,000 in respect of 2007/08. The total expenditure proposed is now \$240,000 over eight years compared with the previous project of \$450,000 over five years.

## **5.11 Lower level of debt, saving of \$691,000**

Greater Wellington is forecasting a lower external debt position as at 1 July 2007 than was assumed in the Proposed Annual Plan for 2007/08. This lower debt is due, in the main, to lower capital expenditure in 2006/07, especially in the transport area. The debt is now forecast to be \$8.6 million less than previously estimated. This results in savings in external finance costs for 2007/08 of \$691,000.

## **5.12 Higher interest income, saving of \$330,000**

The increase in external interest rates, as noted in above, has resulted in higher interest income from our cash deposits of \$33.0 million. This results in a saving in rates of \$330,000.

### **5.13 Travel demand management, saving of \$64,000**

The programme for 2007/08 has been revised, resulting in a saving of \$64,000.

### **5.14 Selling of forward start interest rate swaps, saving of \$200,000**

Greater Wellington undertakes a number of interest rate swaps to hedge its interest rate risk. In respect of the interest rate swaps noted below this involved Greater Wellington paying a fixed interest amount and receiving a floating interest amount on a specified principal amount.

In March last year Greater Wellington took out a number of interest rate swaps that do not start until 2010. Due to the rise in interest rates these swaps are currently worth \$450,000, as the interest amount Greater Wellington would pay on them is significantly lower than current market rates.

It is likely that the value of these swaps will decline between now and 2010 as interest rates are expected to decrease over that period. Assuming this occurs then Greater Wellington has three years to enter into new swaps to hedge its interest rate position.

Greater Wellington has allowed for a \$200,000 gain in selling some of these forward start swaps.

Greater Wellington has taken the appropriate legal and treasury advice on this matter.

### **5.15 Other sundry changes, saving of \$153,000**

There have been a number other changes to the proposed Annual Plan, these have resulted in savings of \$153,000.

## 6. Total changes required to proposed 2007/08 rates

The adjustments outlined above have the following impact on 2007/08 rates:

| Proposed Rates 2007/08<br>(excluding economic development rate) | \$'000 | \$'000        | % Change     |
|---|--------|---------------|--------------|
|   |        | 65,943        | 6.45%        |
| <b>Changes</b>  |        |               |              |
| <b>Addition to rates</b>  |        |               |              |
| Beacon Hill   |        | 30            | 0.05%        |
| Rail Contract   | 740    |               |              |
| Rail Heavy Maintenance  | 239    |               |              |
| Rail - Other maintenance reduction                              | (200)  |               |              |
| Trolley Buses   | 178    |               |              |
| Other Transport net savings                                     | (11)   |               |              |
| Public Transport Total  |        | 946           | 1.43%        |
| Building renovations  |        | 30            | 0.05%        |
| Higher Interest rates   |        | 150           | 0.23%        |
| Lower income from WRC Holdings Group                            |        | 330           | 0.50%        |
| Whitireia Park  |        | 20            | 0.03%        |
| <b>Total Additions</b>  |        | 1,506         | 2.28%        |
| <b>Saving to rates</b>  |        |               |              |
| Flood Protection - Kopuaranga willows                           |        | (21)          | -0.03%       |
| Lower Opening Debt position                                     |        | (691)         | -1.05%       |
| Higher rates on Deposits  |        | (330)         | -0.50%       |
| Travel Demand Management  |        | (64)          | -0.10%       |
| Selling of forward start swaps                                  |        | (200)         | -0.30%       |
| Other sundry changes  |        | (153)         | -0.23%       |
| <b>Total Savings</b>  |        | (1,459)       | -2.21%       |
| <b>Proposed Final Rates Excluding EDA rate</b>                  |        | <b>65,990</b> | <b>6.52%</b> |
| excluding GST   |        |               |              |

## 7. Rates required in 2007/08 compared to 2006/07

If the above changes are approved by Council, the breakdown of rates will be:

| Proposed Final Rates                              | 2006/07       | 2007/08       | Additional Funding | Increase       |
|---|---------------|---------------|--------------------|----------------|
|   | \$'000        | \$'000        | \$'000             | %              |
| General Rate                                      | 21,890        | 21,799        | (91)               | (0.42%)        |
| Regional Transport Rate                           | 32,819        | 36,761        | 3,942              | 12.01%         |
| River Management Rates                            | 3,175         | 3,379         | 204                | 6.43%          |
| Stadium Purposes Rate                             | 2,676         | 2,676         | -                  | -              |
| <b>District Wide Rates</b>                        | <b>60,560</b> | <b>64,615</b> | <b>4,055</b>       | <b>6.70%</b>   |
| Wairarapa Scheme Rates                            | 1,071         | 1,091         | 20                 | 1.87%          |
| South Wairarapa District – River Rates            | 176           | 141           | (35)               | (19.89%)       |
| Bovine Tb Rates                                   | 143           | 143           | -                  | -              |
| <b>Regional Rates</b>                             | <b>1,390</b>  | <b>1,375</b>  | <b>(15)</b>        | <b>(1.08%)</b> |
| <b>Total Rates excluding economic development</b> | <b>61,950</b> | <b>65,990</b> | <b>4,040</b>       | <b>6.52%</b>   |
| Economic Development                              | -             | 4,000         | 4,000              | -              |
| <b>Total Rates including economic development</b> | <b>61,950</b> | <b>69,990</b> | <b>8,040</b>       | <b>12.98%</b>  |
| Bulk Water Levy                                   | 22,776        | 23,460        | 684                | 3.00%          |
| <b>Total GWRC Rates and Levies</b>                | <b>84,726</b> | <b>93,450</b> | <b>8,724</b>       | <b>10.30%</b>  |
| excluding GST                                     |               |               |                    |                |

## 8. Other Matters

### 8.1 Asset Management System

As previously noted by Council, Greater Wellington is considering the purchase of an Asset Management System. The system will cost several hundred thousand dollars, with the final decision on the preferred supplier being made in the next month. The rate impact of any purchase has been included in the 2007/08 Annual Plan.

### 8.2 Masterton building

The proposal to renovate the Masterton building is likely to come to Council for approval within the next two months. The rate impact of any capital expenditure has been allowed for in the 2007/08 Annual Plan.

### 8.3 Johnsonville tunnel modifications

Included in the 2006-16 LTCCP was \$5.0 million for modifications on the Johnsonville tunnels to be spent in the 2008/09 year. This has now been budgeted to occur in 2007/08. Greater Wellington's share of this is 10% and will be loan funded over 75% of the life of the tunnel modifications. The rate impact on 2007/08 has been included in the total rates for 2007/08.



#### **8.4 McKay's Crossing to Waikanae double tracking**

This expenditure of \$11.5 million has been brought forward a year to 2007/08. Greater Wellington's share is 10% and will be loan funded over 75% of the life of the double tracking. The rate impact for 2007/08 has been included in the Annual Plan.

#### **8.5 Additional capacity rolling stock**

Approximately \$16.5 million will be spent on refurbishing second hand units to meet the additional capacity requirements on the network. This expenditure will be funded 100% by way of an interest free loan from the Government.

### **9. Rebudgets of 2006/07 Expenditure**

The list of projects which the divisions are seeking to rebudget by transferring unspent monies to 2007/08 are detailed in **Attachment 1** (operating expenditure) and **Attachment 2** (capital expenditure).

The proposed rebudgets are given to Council at this stage for consideration to enable the completion of the 2007/08 Annual Plan.

Rebudgets total some \$1.5 million in respect of operating expenditure and \$62.5 million for capital expenditure. In respect of operating expenditure, transport accounts for \$1.2 million of the rebudgets. In terms of capital expenditure, transport accounts for \$54.5 million of the rebudgeted amounts.

The delays in a number of transport projects have been reported to Council on a number of occasions. In respect of capital expenditure the major reasons for the rebudgets are the delays in the SW carriages and the new Electrical Multiple Units.

The rebudgets have been reviewed by senior management including the Chief Executive and Chief Financial Officer to ensure that the projects will be completed in 2007/08. Management is satisfied that the projects are still required.

### **10. Bulk Water levy**

The increase in the bulk water levy remains at 3.0% for 2007/08, unchanged from the Proposed Annual Plan. It compares with a 6.0% increase in the 2006-16 LTCCP.

### **11. Amendments to the 2006-16 LTCCP**

The amended LTCCP, incorporating the Wellington Regional Strategy and the new Section 2.1 of the Revenue and Financing Policy, are attached (**Attachments 3 and 4**).

## 12. Audit of LTCCP amendments

The two amendments to the 2006-16 LTCCP in relation to the Wellington Regional Strategy and Section 2.1 of the Revenue and Financing Policy have been audited by Audit New Zealand. Unqualified opinions have been obtained and are provided at page 146 of **Attachment 3**.

## 13. Communications

The Council's final position in respect of rates and levies will be reported by way of a media release.

## 14. Recommendations

*That the Committee recommend that Council:*

- (1) **Receive** the report.
- (2) **Note** its contents.
- (3) **Approve** the operating expenditure items listed in Attachment 1 of this report (as amended by the Committee) to be rebudgeted within the 2007/08 Annual Plan.
- (4) **Approve** the capital expenditure items listed in Attachment 2 of this report (as amended by the Committee) to be rebudgeted within the 2007/08 Annual Plan.
- (5) **Approve** the additional items of operating expenditure within this report (as amended by the Committee) for inclusion within the 2007/08 Annual Plan.
- (6) **Note** that the impacts of the rebudgeting and other adjustments, as approved in recommendations 3-5 above, have been reflected in Section 7 of this report.
- (7) After having considered the other items contained within this report, and other reports on this order paper which could impact on the finalisation of the 2007/08 Annual Plan, **approve** the level of regional rates and the bulk water levy for the 2007/08 year (as amended by the Committee).
- (8) **Receive** the Audit report on the amended 2006-16 LTCCP at page 146 of Attachment 3.
- (9) **Adopt** the amended 2006-16 LTCCP in respect of the Wellington Regional Strategy and Section 2.1 of Greater Wellington's Revenue and Financing Policy as provided in Attachments 3 and 4.

Report prepared by:

Report prepared by:

Report approved by:

**Barry Turfrey**  
Chief Financial Officer

**Jane Bradbury**  
Divisional Manager,  
Corporate and Strategy

**David Benham**  
Chief Executive

**Attachment 1:** Operating Expenditure Rebudgets

**Attachment 2:** Capital Expenditure Rebudgets

**Attachment 3:** Greater Wellington's amended 2006-16 Ten-Year Plan (LTCCP) detailed information document

**Attachment 4:** Greater Wellington's amended 2006-16 Ten-Year Plan (LTCCP) Policies document