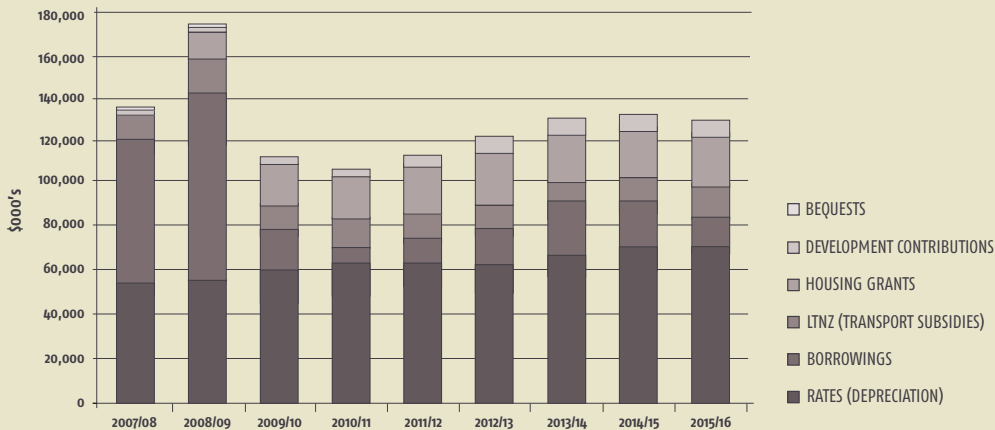


CAPITAL SPENDING

PROPOSED 9 YEAR CAPITAL EXPENDITURE (AND LOANS OUTWARDS) BY FUNDING SOURCE



We're managing our capital spending and borrowing programme with a **long-term view**, to ensure current spending doesn't reduce the **options** available to **future councils**.

Capital expenditure pays for property, plant and equipment. This includes buying, building, developing and upgrading assets such as buildings, roads, bridges, water and stormwater pipes, and so on.

We fund capital expenditure from depreciation, borrowings, sales, reserves and bequests, Land Transport NZ and other subsidies, and development contributions. For asset renewals, the main funding source is depreciation. For new assets, the main funding source is borrowings.

We aim to manage our borrowing within the following targets:

- total Council borrowing is less than 10% of equity and less than 150% of income
- net interest is less than 15% of income and less than 20% of rates income
- liquidity is greater than 110%.

Effective management of our capital spending programme has allowed us to borrow less than we'd planned.

We're forecasting total capital spending of \$99.3 million for 2007/08 (excluding carried forward capital expenditure). That compares with \$106 million we'd forecast for the year in our long-term plan.

These savings reflect our rescheduling of some capital works we'd budgeted for in our long-term plan. For example, we're deferring: construction of the Messines Road water reservoir; some wastewater renewal projects; some roading projects; some urban park upgrades including Hannah's Courtyard and Cobblestone Park; replacement of nursery buildings at the Wellington Botanic Garden; extension of Te Ara o Nga Tupuna – Maori heritage trails; hydroslide construction at Karori Pool; and upgrade the road at Makara Cemetery. (An explanation of each change can be found in the variances sections in the next part of this plan.)

Our total capital spending and loans programme for 2007/08 including carried forward capital expenditure is \$129.5 million. To fund this we're increasing our borrowings by \$61.7 million in 2007/08. This compares with the \$66 million we'd forecast in our long-term plan. This ensures that we can meet current needs without compromising the ability of future councils to meet the city's future needs.

We take great care to ensure that our budgets are robust. Each year we review the underlying assumptions and costs that make up each activity. For each activity we consider the impact of the:

- allocation of organisational costs/efficiencies
- appropriateness of inflation and CPI adjustments
- direct costs associated with staff and recruitment
- changes affecting our opening balance sheet (for example the Wellington International Airport Limited early repayment of subordinated debt in 2006/07).

This means that the forecast costs for each activity may differ from those we had originally forecast for 2007/08 in the long term plan. It is important to note that these allocations do not affect the intended level of service. Any changes from current levels are explained in the Our Activities in Detail section of this document (see the sections on our new initiatives and variances).