New to this long-term plan is our Financial Strategy. It is intended to guide the decisions we make now and in the future to deliver a financially sustainable city in the long term. One in which its citizens can afford to live in the near future, and also in 50 and 100 years from now. In many ways, our strategy is formalising our current practice and compliments our existing financial policies. The Financial Strategy is founded on the following five guiding principles:

- Fairness and Equity
- Willingness to pay
- Value for Money
- Risk management and assessment
- Good financial governance and stewardship

The strategy outlines how we balance investment in our city strategy with prudent and sustainable financial management of the Council’s resources. The Council currently has a sound financial position; however we are facing significant financial challenges over the next 10 years because of the costs of earthquake strengthening our assets, our weathertight homes liability and increasing costs for insurance.

Through setting limits on our rates and borrowings we prioritise expenditure decisions together with review of existing services and their delivery. A Financial Sustainability Working Party has been established to aid in this process, the outcomes of which will be consulted on through our annual plan processes.

The limits on rates is the amount of rates income forecast to be collected by Council based on the ‘limit on rates increases’ which is based on the Local Government Index (LGCI) annually. The limits on rates increases is set as an indexation based on the LGCI.

The base year is the 2011/12 rates income. The target for 2012/13 equates to the increase of the LGCI. The 2013/14 target is the average of the LGCI and the Consumer Price Index (CPI). From 2014/15 to 2021/22 the target is based on the CPI. Rates increase target limit will be set annually with the updated forecast of the relevant indexation for the subsequent year, and will be net of growth in the ratepayer base. A forecast indication of our rates increases are:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LTP Rates Increase – After Growth</td>
<td>3.6%</td>
<td>3.2%</td>
<td>3.1%</td>
<td>3.7%</td>
<td>4.1%</td>
<td>2.7%</td>
<td>3.4%</td>
<td>3.7%</td>
<td>1.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Rates Target – Before Growth</td>
<td>4.3%</td>
<td>3.4%</td>
<td>2.9%</td>
<td>2.49%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.1%</td>
<td>3.1%</td>
<td>3.2%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Rates Target – After Growth¹</td>
<td>3.8%</td>
<td>3.9%</td>
<td>2.4%</td>
<td>2.5%</td>
<td>2.6%</td>
<td>2.6%</td>
<td>2.7%</td>
<td>2.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rates Increase Limit – Before Growth</td>
<td>4.3%</td>
<td>4.0%</td>
<td>3.7%</td>
<td>3.8%</td>
<td>3.9%</td>
<td>3.9%</td>
<td>4.2%</td>
<td>4.4%</td>
<td>4.4%</td>
<td></td>
</tr>
<tr>
<td>Rates Increase Limit – After Growth²</td>
<td>3.8%</td>
<td>3.5%</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.4%</td>
<td>3.3%</td>
<td>3.4%</td>
<td>3.7%</td>
<td>3.9%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

¹ For 2012/13 the rates increase target equates to the increase in the Local Government Cost Index (LGCI). For 2013/14 the target is the average of the LGCI and the Consumer Price Index (CPI). From 2014/15 onwards the target is based on CPI.

² The limit on rates increases are set as an indexation based on the LGCI. The base year is the 2011/12 rates income.

We have set targets and limits separately to be clear about our intentions. Targets are the level that is we intend to achieve. Limits are the level it is we do not intend to breach.

The parameters set for borrowings and capital expenditure are:

<table>
<thead>
<tr>
<th>Borrowings limits</th>
<th>Operating Targets</th>
<th>Prudential Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net borrowing as a percentage of equity</td>
<td>&lt;10%</td>
<td>&lt;10%</td>
</tr>
<tr>
<td>Net borrowing as a percentage of operating income</td>
<td>&lt;105%</td>
<td>&lt;150%</td>
</tr>
<tr>
<td>Net interest as a percentage of income</td>
<td>&lt;15%</td>
<td>&lt;15%</td>
</tr>
<tr>
<td>Net interest as a percentage of annual rates income</td>
<td>&lt;20%</td>
<td>&lt;20%</td>
</tr>
<tr>
<td>Liquidity (term borrowing + committed loan facilities to 12 month peak net borrowing forecast)</td>
<td>&gt;110%</td>
<td>&gt;110%</td>
</tr>
<tr>
<td>Borrowings funded capital expenditure target</td>
<td>$45 million over three year statutory Long Term Plan period</td>
<td></td>
</tr>
<tr>
<td>Borrowings funded capital expenditure limit</td>
<td>$60 million over three year statutory Long Term Plan period</td>
<td></td>
</tr>
</tbody>
</table>

Our financial strategy is detailed in full in part three of this document.
Operational expenditure

Operational expenditure provides for all of our day-to-day operations and services, from waste disposal, water supply and maintaining our roads, to issuing building consents, running our recreational facilities and maintaining our parks and gardens.

The Council plans to spend $379 million on operational expenditure across our seven strategy areas in 2012/13, and a total of $4.4 billion during the next 10 years. The graph below shows where this operational expenditure will be spent by strategy area over the 10 years of the plan:

Operational expenditure over 10 years ($4.4 billion) by strategy

Sources of operational funding

64 percent of our operational expenditure is funded from a combination of general rates (paid on all properties) and targeted rates. The remainder is funded from user charges, ground and commercial lease income, dividends and other revenue such as grants and government subsidies. A small portion is not funded.

The graph below shows how our operational expenditure is being funded over the 10 years of the plan:

Operational expenditure over 10 years ($4.4 billion) by funding source

Detailed information on all of our rating mechanisms is included in part three of this document.
EXECUTIVE SUMMARY

Your rates

For 2012/13, our total rates requirement is forecast to increase by 4.1% (3.6% average ratepayer impact after allowing for growth in the ratepayer base). Total rates are forecast to increase by a further 3.7% for 2013/14 and 3.6% 2014/15 before allowing for growth in the ratepayer base, but including inflation.

Rates on the average residential property (valued at $522,570) are proposed to increase by 2.0% to $1,951 in 2012/13, assuming no change in the capital value. An average rates increase of around 4.8% is proposed for commercial properties, including the impact of increases in metered water charges in 2012/13, assuming no change in capital value.

The following graph shows the forecast average rates increases across the 10 year long-term plan. Currently the planned rates increases (after growth in the ratepayer base) exceed the rates increase limits in four years. The Financial Sustainability Working Party will recommend options to reduce the rates requirement below the limits in those years. The actual impact on each ratepayer will vary depending on the change in their property value compared to the change in the total city valuation base, particularly when the new valuations will be used from 2013/14.
Explaining your rates

Our total rates revenue is split between general rates and targeted rates.

**General rates** are used to fund activities where the Council is unable to clearly identify a specific group of ratepayers who receive the benefit of that activity, or where is it not possible or appropriate for that group to be targeted to pay. There are two categories of general rates: the base sector general rate (residential) and the commercial sector general rate. The Council has a rates differential in place that decides how the general rate is shared between the residents and businesses in each category.

In 2012/13, the commercial sector general rate per dollar of capital value is proposed to be 2.8 times higher than the base sector general rate for a residential property of the same value. We will review this rating differential again next year after the September 2012 valuation is complete to check whether there is any significant shift in the relative proportion of capital value between the base and commercial sectors. We will consult on any recommended change arising from that review in the 2013/14 Annual Plan.

**Targeted rates** are used to fund activities where the Council is able to clearly identify a specific group of ratepayers who receive the benefit of the activity, and where it is appropriate that this group be targeted to pay. The Council sets targeted rates to fund costs associated with the Council’s water, sewerage and stormwater systems. Separate targeted rates are also set for our base (residential) sector, commercial sector, downtown commercial sector, Marsden Village and Tawa driveways.

Your total rates bill will be made up of the general and targeted rates that apply to your property.

**Property valuations and rates distribution**

The Council sets the total amount of rates required to fund its expenditure based on the budgeted costs included in this 10 year plan. For the majority of its rates the Council then uses property valuations as the basis to distribute the total rates requirement proportionally across all properties in Wellington by setting a rate per dollar of capital value on your property.

The Council is on a 3-yearly valuation cycle and for the 2012/13 rating year the September 2009 valuations will be used to distribute the total rates requirement across all properties in Wellington. Therefore the proportional distribution of the total rates requirement to each property will remain relatively unchanged from 2011/12 – except for any growth in the ratepayer base arising from new development or property improvements in the last 12 months. Over the last year the average residential property capital value has increased by 0.5 percent from $519,802 in 2011/12 to $522,570 in 2012/13.

The next property valuation will be completed as of 1 September 2012 and will be used to distribute the total rates requirement for the 2013/14, 2014/15 and 2015/16 rating years.

It is important to note that your rates bill does not automatically change when your property value changes. Your rates bill will only be impacted by the change in your property’s capital value relative to the change in capital value for the entire city. The final rates bill for an individual property will depend on:

- The overall increase in the Council’s rateable budget
- Any changes to the way we fund our activities (as set out in our Revenue and Financing Policy)
- Any changes in the rates differential or uniform rates applying to that property

- The growth in the number of rateable properties in the city (eg due to construction of new houses, apartments or business premises)
- The change in that property’s capital value compared to the average change in the capital value for the entire city

The following table shows the indicative residential property rates exclusive of GST for properties without a water meter for 2012/13:

<table>
<thead>
<tr>
<th>Capital value ($)</th>
<th>2012/13 Rates ($)</th>
<th>Increase over 2011/12 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>200,000</td>
<td>887</td>
<td>2.17%</td>
</tr>
<tr>
<td>300,000</td>
<td>1,217</td>
<td>2.06%</td>
</tr>
<tr>
<td>400,000</td>
<td>1,546</td>
<td>2.01%</td>
</tr>
<tr>
<td>500,000</td>
<td>1,876</td>
<td>1.97%</td>
</tr>
<tr>
<td>600,000</td>
<td>2,206</td>
<td>1.94%</td>
</tr>
<tr>
<td>700,000</td>
<td>2,536</td>
<td>1.92%</td>
</tr>
<tr>
<td>800,000</td>
<td>2,866</td>
<td>1.90%</td>
</tr>
<tr>
<td>900,000</td>
<td>3,195</td>
<td>1.92%</td>
</tr>
</tbody>
</table>

**Proposed changes to rates or rating mechanisms**

**Funding our Weathertight Homes Liability (also known as leaky homes)**

The Council’s Weathertight Homes Liability has been estimated by actuarial calculations to be $53.2 million. Our financial statements as at 30 June 2011 included a discounted provision of $50.9 million for this liability. To date weathertight homes settlements have been funded through a mix of proceeds from insurance cover and operating surpluses.
EXECUTIVE SUMMARY

For this long-term plan, the Council will fund weathertight homes settlements initially through borrowings. To repay those borrowings, we will incrementally increase rates by 0.75% per annum until such time as the Weathertight Homes Liability has been settled and the associated borrowings and funding costs are repaid. This is anticipated to be in 8 years (2019/20).

To allow for this funding, some changes to our Revenue and Financing Policy were required (as included in Part Three of this document);

To provide for the use of borrowings to fund the weathertight homes settlements the following paragraph has been inserted in the “Policy Statement on the funding of operational expenditure” section of the policy (Section 1):

- **Borrowings** In general Council does not fund operating expenditure by borrowing. The exception is to fund the impacts on ratepayer’s equity from payments associated with liabilities arising from weathertightness payments. Any borrowings associated with the settlement of these liabilities will be repaid over time.

To allow our rates to be set at a level to repay these borrowings and all associated costs the following paragraph has been inserted in the “Setting the level of revenue from rates” section of the policy (Section 3).

“The total level of revenue from rates will be established as the total revenue required to cover all projected operating expenditure after taking into account:"

- an amount equal to the projected level of repayment of borrowings associated with the settlement of liabilities for weathertightness payments.

To ensure that the funding of our Weathertight Homes Liability is fully transparent the associated settlement costs, borrowings and rates funding will be reported annually within our Annual Report.

**Water Rates**

We have set the following increases to our targeted water rates to ensure the cost increases in the associated water activity are appropriately recovered:

<table>
<thead>
<tr>
<th>Targeted Water Rating Mechanism</th>
<th>Current (excluding GST)</th>
<th>Proposed for 2012/13 (excluding GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water consumption charge for properties with a water meter</td>
<td>$1.715 per cubic metre</td>
<td>$1.73 per cubic metre</td>
</tr>
<tr>
<td>Annual administrative charge for properties with a water meter</td>
<td>$100.00</td>
<td>$103.50</td>
</tr>
<tr>
<td>Annual fixed charge for base (residential) sector properties without a water meter</td>
<td>$119.75</td>
<td>$127.25</td>
</tr>
<tr>
<td>New connection charges for new residential properties</td>
<td>$60.00</td>
<td>$62.00</td>
</tr>
<tr>
<td>New connection charges for new commercial properties</td>
<td>$200.00</td>
<td>$207.00</td>
</tr>
</tbody>
</table>

**Downtown Levy**

We have also introduced a new map detailing the area to which the downtown levy targeted rate is applied. This map (shown on page 194) includes some new areas not previously covered by our existing policy and is effective from 1 July 2012.
Rates remission and postponement policies
This long-term plan includes a new rates remission for voluntary residential metered water rates. This remission is to provide some relief to residential ratepayers who have a voluntary water meter for their property and are charged for their water on a usage basis, including water usage arising from a leak from pipes on their property. If this leak were to occur on a neighbouring property without a water meter, no additional charges would be incurred by that property owner.

This remission allows the Council to charge the estimated usage arising from the leak at the Greater Wellington Regional Council bulk water rate, rather than the normal Wellington City Council usage rate. For details of the remission please refer to section 2.4 of the Remission Policy in Part Three of this document.

Funding our activities
When we’re deciding how to fund an activity, we consider a wide range of factors including:
- who benefits (individuals, an identifiable part of the community)
- can the beneficiary be easily identified
- can the beneficiary be easily excluded from using the service for non-payment
- intergenerational equity (i.e. do the benefits accrue to future generations as well as present ones)
- the ‘polluter pays’ principle (i.e. people should pay for negative effects they cause)
- fairness/equity of excluding people who cannot afford to pay
- transparency/accountability of a particular funding method
- overall impact on social, economic, cultural and environmental wellbeing.

Our Revenue and Financing Policy outlines how we fund our activities and is detailed in Part Three of this document. In 2012/13 we have made the following changes to how our activities are funded in our Revenue and Financing Policy:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.2 Convention Venues</td>
<td>Decrease from 55% to 5% non-rates income, with 95% rates funding to be split 55% general rate and 40% downtown levy, to reflect change in the way this activity is delivered</td>
</tr>
<tr>
<td>3.1.7 Destination Wellington</td>
<td>New activity 100% rates funded (50% commercial targeted rate and 50% downtown levy)</td>
</tr>
<tr>
<td>4.1.5 Access and support for community arts</td>
<td>Increase from 0% to 10% non-rates income, in line with expected levels of revenue</td>
</tr>
<tr>
<td>4.1.7 Regional amenities</td>
<td>New activity 100% rates funded (general rate)</td>
</tr>
<tr>
<td>5.1.8 Municipal Golf Course</td>
<td>New activity 50% user charges, 50% rates funded (general rate)</td>
</tr>
<tr>
<td>5.2.6 Community Centres and Halls</td>
<td>Increase from 2% to 5% user charges to align with historic and expected revenue levels</td>
</tr>
<tr>
<td>7.1.1 Transport Planning</td>
<td>Increase from 0% to 15% non-rates income in line with historic and expected levels of NZTA revenue</td>
</tr>
<tr>
<td>7.1.4 Passenger transport network</td>
<td>Decrease from 70% to 65% non-rates funding, reflecting increasing costs but mainly fixed income</td>
</tr>
<tr>
<td>7.1.6 Network-wide Control and Management</td>
<td>Increase from 25% to 30% non-rates funding in line with historic and expected levels of income</td>
</tr>
<tr>
<td>7.1.3 Cycle Network</td>
<td>Decrease from 5% to 0% non-rates funding</td>
</tr>
<tr>
<td>7.1.7 Road Safety</td>
<td>Increase from 25% to 30% non-rates funding in line with historic and expected levels of income</td>
</tr>
<tr>
<td>6.2.4 Regulator – Building Control and Facilitation Weathertight Homes</td>
<td>New activity 100% rates funded (general rate)</td>
</tr>
</tbody>
</table>
User charges

For 2012/13, we have increased user charges in a number of areas. The majority of these increases are minor and reflect cost pressures on the underlying service provided by the Council. Increasing fees by a little each year ensures that ratepayers are not over-subsidising services the Council provides and helps to avoid larger catch up increases in future. Our fees are set in accordance with our Revenue and Financing Policy which is outlined in Part Three of this document. Areas where we have increased fees include:

- Sewage collection and disposal network
- Recycling and waste minimisation & disposal
- City archives
- Sports fields
- Synthetic turf sports fields
- Burials and cremations
- Public health
- Building regulation and facilitation
- Development control & facilitation

The level and extent of the fee increases vary and are outlined in greater detail in the appendices of this plan.

Understanding the council’s budgeted surplus

The Council is forecasting a net operating surplus of $37.4 million in 2012/13, $33.1 million in 2013/14 and $33.8 million in 2014/15. The majority of this surplus arises from cash funding received for capital purposes (Crown grants for housing, development contributions, NZTA subsidies and bequests). This income flows through to the net operating surplus to be available to fund capital expenditure. Offsetting this are some depreciation costs on assets which we have resolved not to fund.

Capital expenditure

We’re continuing to invest in our city’s infrastructure while focussing on city resilience.

Capital expenditure pays for purchasing, building or developing the Council’s assets (pipes, roads, libraries, swimming pools). Our capital expenditure (excluding carry forwards and loans to other organisations) is forecast to be $136 million in 2012/13 and $1.4 billion, including inflation, over the next 10 years.

We fund capital expenditure from depreciation, borrowings, NZ Transport Agency subsidies, grants and development contributions. For asset renewals, the main funding source is depreciation. For new assets and upgrades, the main funding sources are borrowings, subsidies and grants.

The following graphs show where our capital expenditure programme is being spent by strategy area, and how that expenditure is being funded, over the 10 years of the plan:
Borrowings
Total borrowings are forecast to be $374 million at the end of 2012/13 increasing to $532.4 million by 2021/22. Over the same period our forecast asset base totals $6.8 billion in 2012/13, and increases to $8.4 billion by 2021/22. We have changed our Revenue and Financing Policy to allow the funding of our Weathertight Homes Liability through borrowings, with repayments through annual incremental rates increases until such time as the borrowings and associated funding costs are repaid. Also impacting on our borrowings profile over the next 10 years are the costs to strengthen buildings and other infrastructure so that they can withstand earthquakes.

As borrowings are a consequence of capital expenditure, our financial strategy has also set a ‘borrowings funded capital investment target’ of $45 million, and a ‘borrowings funded capital investment limit’ of $60 million for each 3 yearly Council Long Term Plan. This will ensure our debt levels remain sustainable and affordable for years to come. The current plan breaches the $60m Capex investment limit in the three trienniums, however the Council is committed to change this through the annual plan/long term plan process to enable compliance with this limit. The Financial Sustainability Working Party will work on this objective from mid 2012, to ensure compliance with this self imposed limit.

Wellington City Council currently holds an AA credit rating from Standard and Poor’s. This credit rating should result in lower borrowing costs for the Council and greater access to debt markets.

The following graph shows our forecast borrowings over the next 10 years against our operational and budget prudential borrowing limits. We remain compliant with all prudential limits across the life of the plan.

Our Housing activity is forecast to generate a cash surplus over the ten years for re-investment in our housing stock upgrade.

Forecast 10 Year Borrowings with Key Borrowings Limits ($000)

This cash surplus is “ring-fenced” in our financial statements, but offsets our total borrowings. The graph also shows how our borrowings would increase if this cash surplus was excluded from our borrowings profile.
Insurance
The earthquakes in Christchurch resulted in a tightening in the insurance market both in New Zealand and overseas leading to increases in insurance rates, reductions in capacity and closer vetting of risks by insurers.

The existing Wellington City Council insurance programme includes cover for all above and below ground infrastructure, buildings, plant and equipment throughout the city.

In the event of a significant event in Wellington, the Council would fund any major infrastructure rebuild via a combination of:
- Insurance cover
- Self insurance reserve fund
- Reprioritisation of renewals capital and new capital, if required
- Loan funding in the event of any shortfall

It should also be noted that there may be contributions from Central Government towards restoration of core infrastructure.

Financial indicators at a glance
Over the 10 year plan our forecasts show:
- Operating expenditure will increase from $379.2 million in 2012/13 to $496.1 million in 2021/22
- Capital expenditure will range between $133 million and $160 million each year
- Total borrowings will increase from $374 million in 2012/13 to $532 million in 2021/22
- Total rates revenue will increase from $240 million in 2012/13 to $323 million in 2021/22

Key Financial Indicators for 10 Year Long Term Plan ($000)
The key reasons for the increasing trends across our 10 year plan are as follows:

- Operational expenditure and rates are impacted by inflationary assumptions around our underlying costs, and the operational impact of our capital expenditure programme
- Rates are also impacted by our annual incremental increase in rates of 0.75 percent to repay our weathertight homes borrowings liability
- Capital expenditure is largely influenced by the renewal profiles within our asset management plans, and our housing upgrade and earthquake strengthening programmes
- Borrowings are influenced by the timing and extent of our capital expenditure programme and estimated timing of payment of our weather tight homes liability