Questions and Answers
Extraordinary Pūroro Maherehere | Annual Plan/Long-Term Plan Committee
13 April 2022

2.1 Adoption of the 2022/23 Annual Plan and LTP amendment Consultation Document

Recommendation (9) and clauses 40-43

1. What where the key non-material matters raised requiring additional time for the audit?

   Many industries are experiencing labour shortages, and this has been recognised by central government with extended timeframes for when some annual reports are due to be finalised. This shortage of labour (auditors) is also impacting other audit timeframes including this LTP amendment. See below for further information.

2. What are the key changes to the consultation document required by Audit?

   Audit NZ requested a number of points of clarification be added to the Consultation document, mostly regarding the information on the City Housing options. Largely this was through some additional text to clarify the basis for an assumption underlying an option (for example the basis for the required level of capitalisation or the period of time for a CHPs rental revenue to increase as new tenants become eligible for IRRS); or to further explain an option, (for example clarifying Council's governance role in a CHP model). Audit also focused on the presentation of the financial impacts of each option and that has also led to some change (aligning the presentation of rates impacts to the 2021-31 LTP period).

Recommendation 11 and clause 38

3. How realistic is it for officers to “explore opportunities’ and come up with options to further off-set pressures given officers advice that this was not possible at the meeting of 8th March?

   Officers have limited options available to utilise in lowering the rate increase further but will endeavour to review a number of key assumptions, including treasury management levers to see if there are possible further changes that may allow a slight reduction in the rates requirement.

Clauses 34-35

4. How do officers propose to engage with commercial ratepayers about the proposed increase in the commercial differential given the change is rated 'high' in the Significance and Engagement Policy?

   Council will consult with all Wellingtonians and businesses through the consultation process and will encourage all individuals and groups to provide feedback. The differential has been covered by media and consequently we expected interested parties to make submissions. Officers do not believe the change in rating differential is rated as high in the Significance & Engagement Policy, as 2 or more criteria in schedule 1 must be met and this is not the case in this instance.

Consultation document

5. Are officers comfortable that the Council has sufficient funding in its 3 waters' budgets for next year's budget? Could this be stated in the consultation doc given the high risk of potential change?

   See response to item 11 below.

6. Would it appropriate to raise within the document, the scale of potential impact and the uncertainty around delivery of the entire capex budget given the high risk and significance of potential change which is not all Covid-Omicron driven?

   There is a higher degree of market uncertainty due to omicron at this time, and that uncertainty has been factored in the development of the capital plan and 2022/23 budget. Overall delivery is being closely monitored and the next update to committee will be in May.

Operating Revenue required to fund operating expenditure

7. On advice from officers, the establishment of an operating grant fund (Better Building Fund) has recently been agreed by a majority. The fund, whilst operational expenditure, is not being funded from operating revenue but debt funded. This seems to be in contradiction of the Revenue and Financing Policy.

   It is also appearing out of line of normal Council practice when the only other recent debt funding operational items (temporary libraries & impacts of Covid-19) was specifically due to unexpected costs. Please provide advice on how the funding solution for the Better Building Fund fits with Council policy and normal practice.

   It is officers view that this fund while "operational" from an accounting view is in nature capital expenditure. Council financial policy states "In general, the Council does not fund operating expenditure by borrowing. The exception is to fund the impacts on ratepayer's intergenerational equity or to fund expenditure over the period which benefits are received, such as weathertightness payments (which are also capital in nature but are deemed operational expenditure by accounting standards). Any borrowings associated with these expenses will be repaid over time." The Council can apply this exception to the Better Building fund and has resolved accordingly.

8. Given the 'Better Building Fund' is promoted as "an effective tool to support our goal of becoming a carbon neutral city by 2050", please advise why funding was not considered from existing operational budgets such as Te Atakura which received a significant boost to operational funding in the 2021/31 LTP.

   This initiative was not developed at the time the LTP budget was finalised.

9. Officers have advised that there will be no further proposal put before Council for rescheduling of capital delivery projects until the fourth quarter of 2021/22 year and after engagement on the Annual Plan commences.

   If in part, the proposed rates increase for 22/23 is to fund capital delivery on a yet to be further rephased capital programme, what impact is this likely to have on operational funding requirements for the 22/23 year?

   This has not been determined yet and therefore can't be quantified as a saving until May 2022. Any deferral in the capex programme from 2021/22 into 2022/23 will reduce the rates requirement and similarly any reduction in the capex programme from 2022/23 into 2023/24 will reduce future years rates requirement. But this is a timing difference on when rates will be needed to be charged to ratepayers. The majority of depreciation that is rated for is based on existing fixed assets with a smaller proportion being derived from WIP and new build capex in a particular year.

10. Please advise why officers' advice is such that likely further significant changes to the Council's capital delivery programme for 2022/23 is not being signalled to the public in the Annual Plan consultation document (other than what was agreed following the first quarter of 2021/22)?

    This has not been determined yet and therefore can't be quantified.

11. Given the recurring issues around Council's water infrastructure, please advise whether officers are planning on recommending further investment into our water infrastructure for 22/23 and how this may be managed (ie LTP amendment?).

    There is a paper going to Pūroro Āmua | Planning and Environment Committee on Thursday 14 April 2022 on bringing forward additional capex funding to 2022/23 from future years. There is also an additional opex funding paper being prepared for the Pūroro Waihanga | Infrastructure Committee meeting on 27 April 2022.

12. What advice have you received from Wellington Water Limited on their capacity to increase their operating and capital delivery works for Wellington city over and above what is currently signalled in the Long-term plan and for the 22/23 year.

    Initial indications from WWL is that they could potentially increase delivery of the capital programme. This still needs to be tested further.

13. Please advise the amount and how will the additional capital required be funded to fund the reduction in funds from Waka Kotahi in respect of planned capital transport projects and for the 22/23 year.

    See answer below (14).

14. Please advise why the reduction in Waka Kotahi funding is not being signalled in the Annual Plan consultation document.

    The reduction was signalled in the LTP and has not significantly changed since then. The Annual Plan focuses on significant changes since the adoption of the LTP. As there has not been a significant change in the funding reduction it is not a matter for the Annual Plan. The reduction is however incorporated into the Annual Plan Budget for 2022/23.

15. Please confirm that Council has provisioned sufficient funding (operating and capital) for its contribution for the Let's Get Wellington Moving programme for the 22/23 year.

    The funding of the LGWM programme was updated as part of the Annual Plan.

Rating Differential

16. What agreed Council policy and or guidance refers to a specific amount of proportionality (currently calculated at 44% to commercial ratepayers) is the rationale for the calculation of the rating differential?

    See below.

17. Please provide information on how you have considered the requirements of the Local Government Act and the factors (as included in the General Rates Differential Policy Statement 2021) to determine the proportionality and or multiplier.

    Section 23(2)(b) of the Local Government (Rating) Act 2002 requires that rates must be set "in accordance with the relevant provisions of the local authority's long-term plan and funding impact statement (FIS) for that financial year" (being the FIS in the annual plan). The legislation does not expand on what constitutes the relevant provisions of the LTP for the year, but we have interpreted this as including the RFP.

    The Council's RFP states that the Council proposes no change in the rates differential in the Long- Term Plan and records the commercial differential as being 3.25 times the residential differential. However, it goes on to state that "the Council will review the differential each year to ensure sector affordability and make any necessary changes". Even if it is not explicitly clear that the change to the differential proposed for 2022/23 is to "ensure sector affordability", which it is, then this provides a basis for asserting that the proposed differential is "in accordance with" the RFP.

18. The Council is required to review the differential each year to ensure sector affordability. Please advise what review and the findings were undertaken by officers in determining the commercial sector affordability including the relevant factors (including any comparison to other comparable commercial centres in other main cities).

    This was last done formally as part of the LTP process and adopted by Council with the adoption of the 2021 LTP.

19. When reviewing the rating differential please advise how you have considered the significant decrease in numbers and frequency over the past two years in both commuters and visitors into Wellington City and how this has been factored into the proposal to increase the rating differential and the benefit the commercial sector derives.

    These are historical changes that cannot be predicted for the forthcoming year. Also, businesses may have adapted their business model to match the change in consumer purchasing practice which cannot be modelled.

20. Given the significance (high rating due to change in existing policy and community interest) of the proposed change to the rating differential, what consideration has this been given as this being an LTP raised change and or full engagement with the community as part of the Annual Plan consultation (noting that there is only one small comment about "updating the differential in the Draft annual Plan consultation document sections under Operating expenditure- Revaluations and rates).

    Officers do not agree that the change in rating differential is rated as high in the Significance & Engagement Policy, as 2 or more criteria in schedule 1 must be met and this does not appear to be the case in this instance. There is no change in existing policy, it is continuing with the intent of the policy previously set.

21. Regarding the future of Wellington's social housing consultation - was it necessary to have a preferred option because we are amending the LTP?

    Yes, it's requirement under the Local Government Act when consulting on an LTP amendment.

22. Also was there any information in the past that showed a graph on the impact of the rates funded option to show what they will mean for ratepayers year on year (also against our borrowing ability) and a graph that shows what the impact of the rates will be for the Community Housing provider - Council leases assets option will look like for ratepayers year on year for the next 10 years?

For the consultation document, we've provided the total rates requirement for each option for simplicity. We will provide a year-on-year view of rates and debt to support deliberations. A key point to remember on the relative rates impact of the options, is that the rates and debt option has a higher rates impact than the preferred option but does not result in any improvement in rental affordability for current or future tenants and does not generate additional housing supply (i.e., it costs more to maintain the status quo).

23. Had we also done any work on a graph/timeline of when we would be able to start building more housing if the CHP option is chosen?

Last year we did quite a bit of work to understand the redevelopment/new supply potential on key sites in the portfolio, including potential infill opportunities. This could be made available to the CHP to help them consider the most appropriate opportunities. There are certainly opportunities that could be progressed fairly quickly, but when/how this development takes place will need to be something the council and the CHP consider together. Or in the case of development on land that the CHP may purchase itself, it will be for the CHP to consider the timing of that development. To make the most of these opportunities, the CHP would also need to secure government funding which it would need to apply for. While there will be some decisions the council will make itself in establishing the CHP, we need to ensure that the council does not make decisions that are either the CHPs to make or for the CHP and council to make jointly.

How we would give effect to the redevelopment focus is something we would need to do further work on, if the council decides to progress with a CHP following consultation. But there are examples of MOU-type agreements that set out each party's expectations around development and we could consider this kind of arrangement. This could include things like:

- The Council's expectations for redevelopment, including indicative timeframes
- Conditions the CHP must meet to draw down the capitalisation payments
- Potentially, a time limit for how long the funds could remain undrawn for (e.g. give the CHP a time period to draw the funds down, with no guarantee that funds would be available after that)

This is one area of several that we would provide the Council with further detailed advice on, if the council decides to progress with a CHP following consultation.

24. Will Council's existing tenants in a CHP still be able to get access to the ARL subsidy? Or as part of the new CHP setup will we need to redesign any subsidies for non IRRS tenants? Do we have an idea of the timeline for the new subsidies or when the ideas/options for us to support our tenants will be able to be made public?

This is another area that we will be doing further work on and council will be able to make choices on. The consultation document says that tenants would transfer across to the CHP on existing rental policy, which would include access to the ARL. But we are doing some more work on further support that the council may be able to provide existing tenants, given they would not be eligible for the IRRS – we have indicated in the consultation document that we are doing further work on this for the council to consider. We will ensure the council has advice on the options before it makes a decision whether or not to adopt the LTP amendment. This advice will also consider how any additional support could be funded, given it is not currently factored into the LTP amendment.