
REPORT 2
(1215/52/IM)

DRAFT WATERFRONT DEVELOPMENT PLAN FOR CONSULTATION

1. Purpose of Report

The purpose of the report is to present, and seek approval for, the Draft Waterfront Development Plan for 2009/10, for consultation with the public.

2. Executive Summary

The 2009/10 draft Waterfront Development Plan differs from the 10 year work programme approved by the Strategy and Policy Committee in December 2008, with the key differences being the introduction of new projects and the deferral of the transition to the Council.

Revision of the underlying financials subsequent to the December 2008 work programme, has resulted in the need to revise the LTCCP budget regardless of the draft Waterfront Development Plan. These revisions relate to increased operating revenue, revised commercial proceeds and revised interest calculations etc.

Market conditions have resulted in the likelihood of waterfront sites not being developed in the short or even medium term, with current predictions being that development may not occur on most of the larger waterfront sites for up to 5 years.

Deferral of commercial projects in the short term has created the opportunity to investigate potential interim uses such as a Campervan Park, High Tensile Tent, and Temporary Ice Skating Rink.

While progress has been made towards transitioning in July 2010 it will detrimentally affect the ability to investigate interim uses and progress the 2009/10 work programme. It is therefore considered that deferral of the transition to the Council of one year would be appropriate.

Deferral of the commercial projects creates the need to align public space expenditure with income and therefore Council officers have recommended the deferral of “non-essential” public space projects such as the proposed Kumutoto Toilets.

3. Recommendations

Officers recommend that the Committee:

- 1. Receive the information.*
- 2. Approve the draft Waterfront Development Plan, attached as Appendix 1 to the officer's report, for consultation with the public.*
- 3. Agree transition of the management of the waterfront project to the Council to 30 June 2011.*
- 4. Delegate to the Chief Executive and the Portfolio Leader for Urban Development and Transport the authority to approve any minor editing amendments required to the Plan before it is published for consultation.*
- 5. Note that officers will report back to the Strategy and Policy Committee on Thursday 5 November 2009 on the outcomes of the consultation process.*
- 6. Note that the Long Term Council Community Plan may require amendment following the outcome of further consultation on the proposed Waterfront development plan.*

4. Background

After the disestablishment of the Waterfront Development Subcommittee, the Strategy and Policy Committee is now charged with approval of an Annual Development Plan for the waterfront. The Wellington Waterfront Framework (the Framework) states that this is to be done through a balance of making good progress on the waterfront and providing the public with sufficient opportunity to be involved in the process. The development plan flows directly from the Framework.

The Development Plan outlines the work programme to implement the objectives of the Framework. It has been developed directly from the concepts as laid out in the Framework, and includes how developments will be done, a phasing schedule and a financial model for the proposed work.

The 2009/10 Waterfront Development Plan follows the decision made by Council in December 2008 to extend the implementation of the waterfront project over a 10 year work period and to transfer the development and management responsibilities to the Council by July 2010 – subject to a review of market conditions.

The decision to extend the project was based on the longer than anticipated RMA time frames for individual projects; an unfavourable development market; and financial constraints as a result of deferred income from commercial developments within the waterfront. It was considered that the implementation should be spread to better align public space expenditure with the income from commercial developments, thereby reducing the impact on ratepayers. It was considered that with a less intensive work programme there would be

significant savings to the project by transferring the implementation function, currently undertaken by WWL, to the Council

Market conditions are still poor and expected to be that way for some time yet. As noted by WWL “*changed economic circumstances, locally and globally, have resulted in the likelihood of waterfront sites not being developed in the short or even medium term. Current predictions are that we may not see development occurring on most of the larger waterfront sites for up to 5 years*”.

Officers have considered the draft WWL business plan and the ten year forecast provided by WWL in the preparation of the draft Waterfront Development Plan for 2009/10 (attached as Appendix 1). The discussion below focuses on the differences between the draft Waterfront development plan and the work programme approved in December 2008. As a result of the introduction of new projects and changes to the timing of previously agreed projects, the key proposed amendment is the proposal to defer the transition to the Council for one year – to occur 1 July 2011.

5. Discussion

5.1 December 2008 decision

The work programme agreed in December 2008, confirmed the following Framework principles and Council expectations:

- That the work programme would generally phase commercial proceeds to be received before public space development to reduce the financial burden on ratepayers
- \$15 million funding would be provided from the Council, with the waterfront project to be self sufficient after the initial \$15 million Council injection
- \$15 million short term advance funding would be provided in recognition of the delays in commercial projects.
- An intensive work programme would be more appropriately implemented by WWL, while the less intensive 10 year work programme was more appropriately implemented by the Council.
- In light of the development market and the expectation that commercial receipts would be deferred in the medium term, the less intensive work programme, i.e. *spread option*, was the preferred and agreed implementation option.
- The default is for transition to the Council, subject to a review that will consider whether market conditions warrant a more intensive implementation

5.2 Changes from the Dec 08 SPC paper

A number of assumptions used to prepare the financial position in the Dec 08 SPC paper "Options for the waterfront" have been reviewed and updated for the Draft Waterfront Development Plan.

Operating Surplus/Deficit

- Operating revenue has increased by \$13.4 million across over 10 years to reflect newly signed rental agreements and an increase in the level of utility and operating recovery revenue received.
- Asset running costs have been revised for latest expectations which have increased in cost by \$2.3 million over 10 years.
- Interest has been recalculated to reflect the latest borrowings forecast.
- The transition of the management of the project to Council has been deferred by 1 year to 2011/12.

Commercial Proceeds from Developments

- The timing for the commercial developments has been deferred by between one and two years due to latest estimates of market conditions.
- Commercial proceeds have been revalued which has reduced the total expected value by \$1 million.

Public Space Developments

- Inclusion of a temporary campervan park in 2009/10 at Kumutoto as a transition project for the site.
- Removal of the Kumutoto public convenience which was previously planned for 2015/16. The Company has proposed this development continues and is pulled forward to 2009/10.
- The Hunter Street traffic control work has been pulled forward from 2014/15 to 2008/09.
- The Taranaki Street Wharf upgrade has been brought forward from 2016/17 to 2010/11 to align with the completion of the Wharewaka.
- OPT public space development has been deferred from 2011/12 to 2014/15 to be in line with the expected deferral of the commercial development.
- Wharf maintenance has been updated to reflect the latest timing estimates.
- The draft Waterfront Development Plan proposes at this stage to investigate the feasibility of a temporary Ice Skating Rink and the temporary tensile fabric structure as possible interim uses. It should be noted, however, that these projects will require additional funding if they are to progress through to construction.

The following tables show the estimated project timing which forms the basis of the financial forecasts. Planning work will precede this to ensure implementation happens within the time frame, but for clarity purposes timing of the planning is not shown.

Draft FY09/10 Waterfront Development Plan project timing

Project	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Developments											
Shed 11											
OPT											
Kumutoto Sites 8 & 9											
Kumutoto Site 10											
Shed 6											
Chaffers marina berth sales											
Public Space											
Kumutoto											
Kumutoto WC											
Shed 13											
QW Square/Promenade/Outer T											
Hunter St Traffic Control											
Frank Kitts Park											
Wharewaka											
Taranaki St Wharf (TSW)											
TSW traffic Control											
Transition Site											
OPT public Space											
Chaffers Marina maintenance											
Chaffers Marina relocation											
Wharf Maintenance											
Minor works											

December 2008 decision project timing

Project	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Developments											
Shed 11											
OPT											
Kumutoto Sites 8 & 9											
Kumutoto Site 10											
Shed 6											
Chaffers marina berth sales											
Public Space											
Kumutoto											
Kumutoto WC											
Shed 13											
QW Square/Promenade/Outer T											
Hunter St Traffic Control											
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Wharewaka											
Taranaki St Wharf (TSW)											
TSW traffic Control											
Transition Site											
OPT public Space											
Chaffers Marina maintenance											
Chaffers Marina relocation											
Wharf Maintenance											
Minor works											

5.3 Implications

The draft Waterfront Development Plan essentially seeks to revisit the earlier Council decision and agree the proposed amended work programme and associated financials, with WWL to continue to manage the project and investigate/implement interim uses for an additional year.

Officers support the draft Waterfront Development Plan in that the interim projects and projects that have been brought forward have the potential to contribute to the objectives of the Framework. Refocusing on a transition date of 1 July 2010 will significantly disrupt (if not preclude) that work. The financial

implications are considered below, but it is important to note at this stage that the officer position differs from the company in that:

- Officers do not support the inclusion of the new public toilets at Kumutoto at this stage i.e. before the realisation of commercial proceeds as had been proposed by WWL
- WWL consider that the transition date should be deferred until 31 December 2011 at the earliest, while officers maintain the view that 1 July 2011 is an appropriate deferral date

5.4 Financial implications

The financial modelling has been based on the latest available information, and seeks to illustrate the financial implications of the draft Waterfront Development Plan.

It is important to note that, with revised figures for operating revenue, interest commercial proceeds etc, the December 2008 work programme financials (subsequently incorporated into the LTCCP) require amendment. The amendments are required regardless of the work programme that is agreed via this waterfront development plan process.

Officers have included the December 2008 information, as a background to the implications of the draft Waterfront Development Plan (“Dec decision (WCC Spread)” on the graphs).

To give further context to the financial implications of the proposed work programme and the deferral of the transition by one year, comparison has been made across a 10 year period against a scenario that retains WWL as the implementation arm of the Council (“WWL 10 years” on graphs). This then provides essentially a re-forecast of the “*Spread WWL*” and “*Spread WCC*” scenarios that were considered in December 2008 – which is appropriate due to the revised financial information. This will enable the committee to view the impact of transitioning to the Council on a year by year basis but also commutatively across the anticipated life of the implementation phase.

The draft Waterfront Development Plan is shown on the graphs as “Draft Plan”.

Overview of results of financial modelling:

The results of the latest financial analysis are consistent with the results in the December 2008 SPC paper “*Options for Waterfront Project*”.

At that time Officers considered the appropriate management structure for delivering the Waterfront Development under two scenarios. First if the project was completed across a relatively short timeframe of 4 years, and secondly, spreading the development over the longer timeframe of 10 years.

If the project was to be completed quickly (“Fast” option) it was recommended that the company should continue the development, as it would be impractical

to transfer all functions to the Council and deliver a major development programme in the short term.

If the work was to be spread over a longer period of time (“*Spread WWL*” and “*Spread WCC*” options) then flexibility existed to choose the implementation agency for the medium to long term. While the impact of the management fee to WWL is not considered significant over a shorter term (as it is overshadowed by the impact of the commercial proceeds and public space development in the context of the wider project) with a spread work programme the higher cumulative cost of the company was identified as a factor.

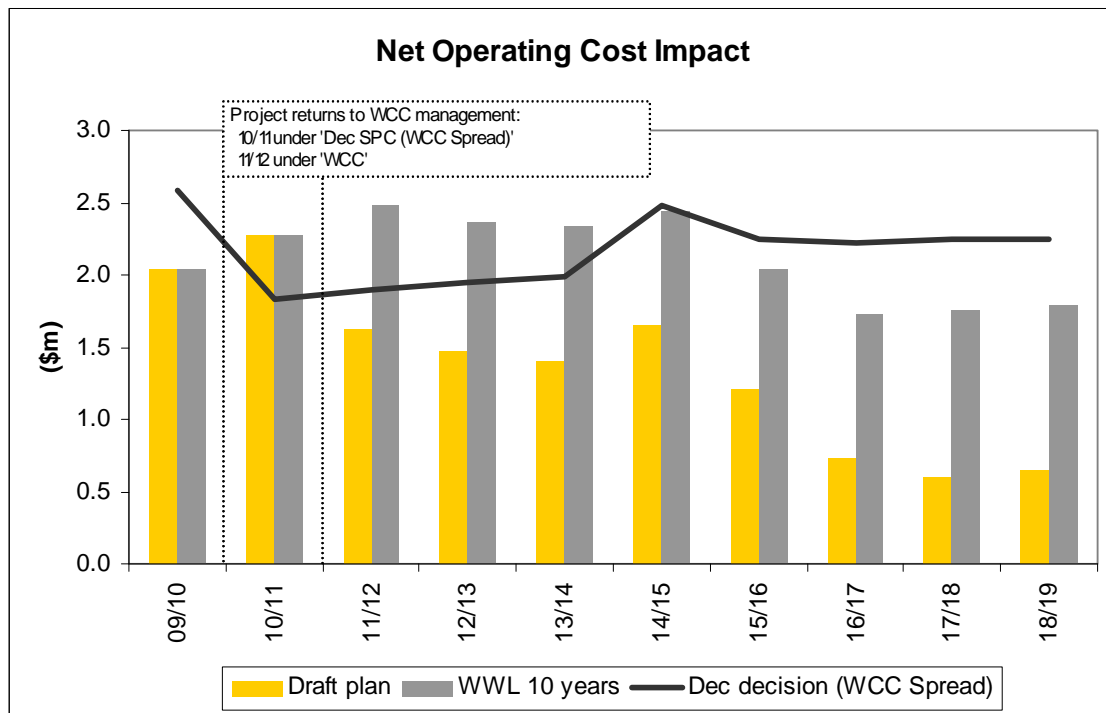
The updated financial modelling shows if WWL continued through the entire period of the LTCCP:

- The additional burden on rates over the 10 years of the LTCCP is \$5.7 million
- The difference in borrowings at the end of the project is \$1.9 million

As a result of changes in the expected timing of commercial proceeds, the \$15 million short term advance is likely to be breached and require further funding. The level of borrowings is forecast to rise to \$16.9 million. This will necessitate an amendment through the Annual Plan Process for 2010/11.

5.4.1 Net operating cost impact

This is the net operating cost taking into account the revenue received from waterfront operations and the expenses to maintain and operate the waterfront.



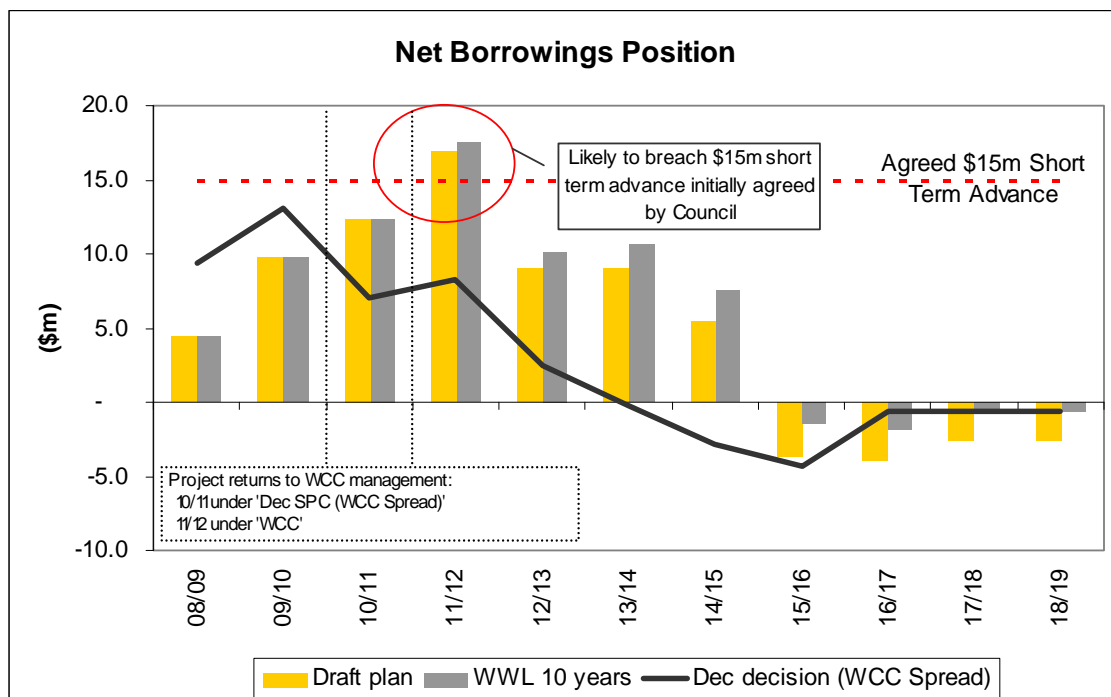
The Draft plan scenario assumes Council management from 2011/12 and the Dec decision (WCC Spread) scenario assumes Council management from 2010/11. The Draft plan and WWL 10 years scenarios are based on the latest

available information. Over the life of the project the latest estimate shows a significant reduction in the operating deficit. The key difference is an increase in forecast operating revenue from \$29m to \$43m over the 10 years for increased rental income and increased utility and operating expenditure recovery from tenants.

The key differences in net operating cost between the Draft Plan and WWL 10 years scenario are the lower cost of the management structure if transferred to the Council, due to the integration of support functions within the Council, and lower interest expense flowing from lower average borrowings.

5.4.2 Borrowings & short term advance impact

This is the balance of the Council borrowings required at the end of the financial year to provide the short term advance funding to WWL. This was intended to be repaid by commercial proceeds.

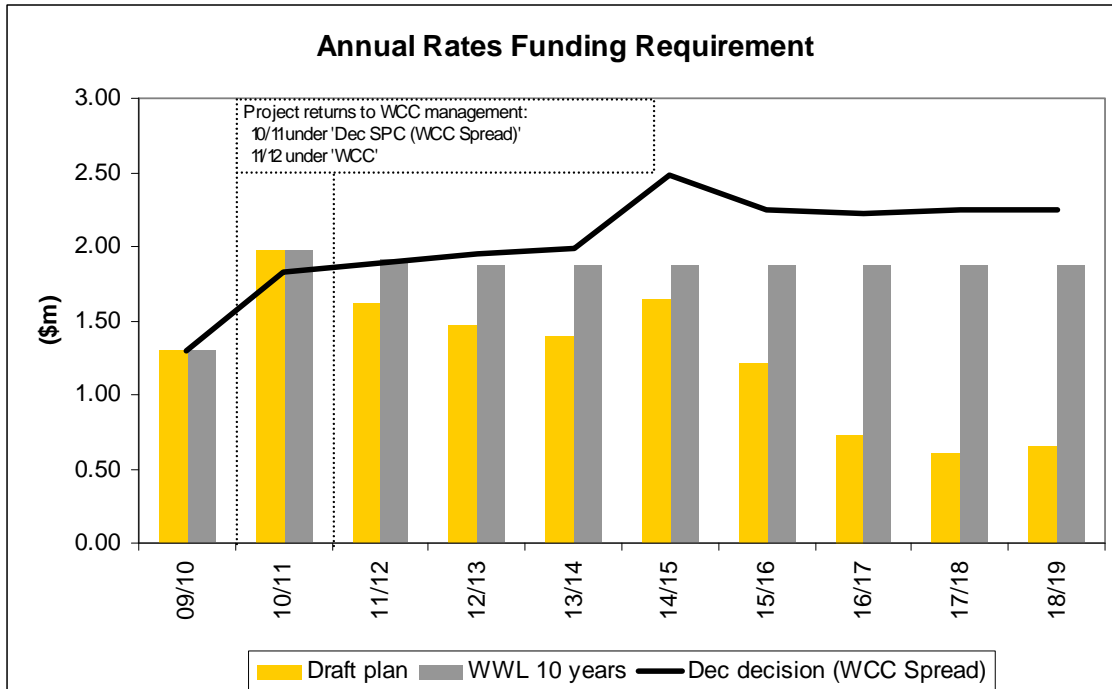


Borrowings are near zero at the end of the Project in the WWL 10 years scenario, whereas a surplus is created under the Draft plan scenario which could be used for further public space development or to retire debt. The difference in the level of borrowings in 2018/19 between the 2 scenarios is \$1.9 million.

With difficult market conditions expected to continue in the medium term, with the flow on effect being to defer commercial proceeds, it is likely the project will breach the \$15m Short Term Advance allowance in 2011/12.

5.4.3 Rates impact

This is the forecast rates requirement to fund the waterfront project. The differing ways the operating deficit and borrowings are treated flow through to the rates funding required.



The rates burden across 10 years is less under the Draft Plan scenario, principally as a result of the lower net operating cost. Across the 10 years this scenario requires \$5.7 million less rates funding.

Changes in assumptions since the December 2008 paper have resulted in both the Draft plan and WWL 10 years scenarios forecasting savings compared with the rate funding requirement in the LTCCP. This is principally due to an increase in forecast operating revenue from \$29m to \$43m over the 10 years.

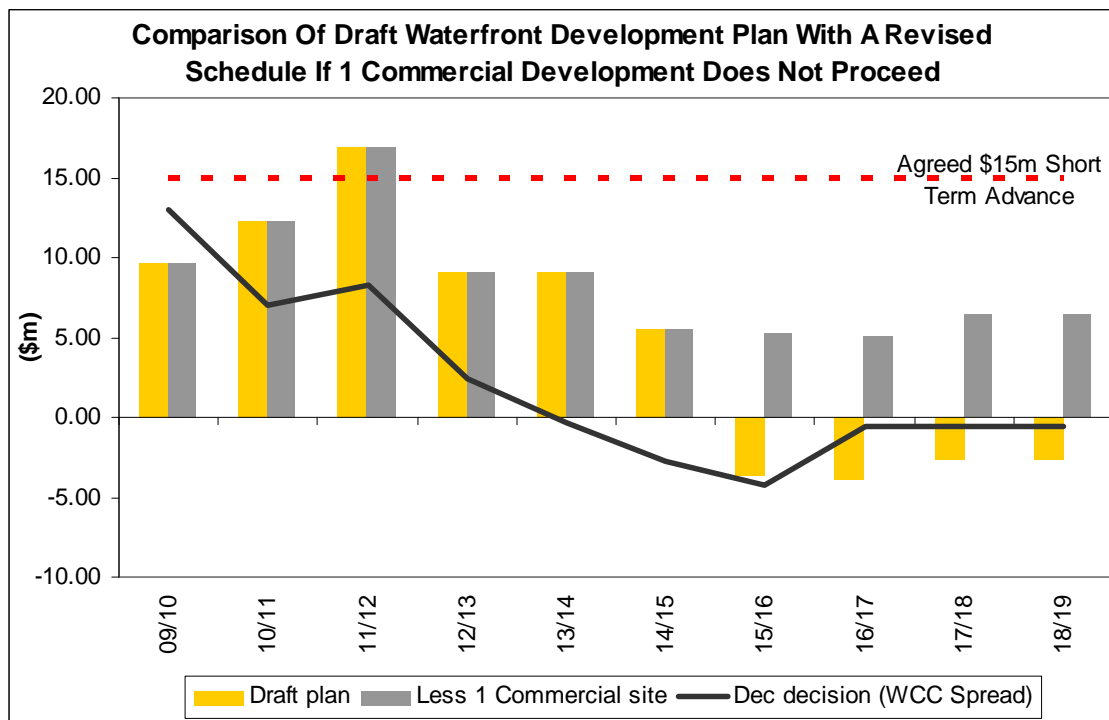
5.5 Financial risk

The key financial risk to the Waterfront project is having less commercial proceeds being received than forecast, particularly as they are reliant on a limited number of projects and there is uncertainty surrounding future economic conditions.

One commercial site not proceeding

Under a scenario where one of the commercial development sites does not proceed, the surplus funds created in the draft Waterfront Development Plan reverses and the borrowings would not be fully repaid. If this eventuated the borrowings position is forecast to be \$9 million worse.

The chart shows the forecast borrowings for the draft Waterfront Development Plan if commercial proceeds are received as expected compared to the borrowings if one commercial development does not proceed.



No Commercial Proceeds Are Received

In the worst case scenario where no commercial developments proceed, the forecast unpaid borrowings rises to \$41.1 million with an associated annual interest cost of \$2.8 million in addition to the ongoing operating deficit. This is partly due to an estimated \$10 million additional wharf strengthening work, which is planned to be completed by developers as part of commercial developments, which will need to be completed by Council if the developments do not proceed.

While we have set out the potential risks to complete the picture, it is, however, reasonable to expect that there will be commercial proceeds coming back into the project when the development market improves. In these cases the level of unpaid borrowings can be partially mitigated by deferring non-essential public space developments. It would be inconsistent, however, with the overall vision of the Framework to cease public space development, but the risks identified above do support the principle of spreading the work programme and reducing costs by transitioning the implementation function to the Council.

5.6 2009/19 LTCCP implications

The funding requirements for the Waterfront in the 2009/19 LTCCP were developed based on the approach SPC approved in the December 2008 paper “Options for Waterfront Project”.

The proposed Waterfront Development Plan can be accommodated within the funding provided in the LTCCP in 2009/10 and budget that has been carried forward from 2008/09 for wharf piling repairs now expected to be performed in 2009/10. For subsequent years, however, the funding required, both rates and borrowings, will need to be adjusted.

Adjustments to LTCCP funding required

Rates Requirement	FY09/10	FY10/11	FY11/12
LTCCP base	1.299	1.828	1.892
Increase/(decrease) in funding required	0.000	0.142	-0.274
Revised amount	1.299	1.970	1.618

Capital Requirement	FY09/10	FY10/11	FY11/12
LTCCP base	3.709	2.250	1.250
Increase/(decrease) in funding required	0.000	0.341	3.371
Revised amount	3.709	2.591	4.621

Officers recommend the LTCCP is amended following the outcome of further consultation on the proposed Waterfront development plan through the 2010/11 Annual Plan.

5.7 Consultation

The Plan will be consulted on over four weeks in September/October. Members of waterfront distribution lists will be invited to comment, it will be posted on Council's website and the consultation will be advertised so that the members of the community can make submissions if they wish to and feedback will be reported to the Committee.

Any minor amendments to this plan prior to it being issued for consultation will be approved by the Chief Executive and the Urban Development and Transport Portfolio Leader.

Any changes to the Development Plan as a result of the public consultation will be made and followed through into WWL's business plan where relevant. The final Waterfront Development Plan will be confirmed following consultation and any amendments made by the committee.

6. Conclusion

It is considered that the deferred time frame for commercial developments has created the opportunity for appropriate interim uses of waterfront areas and that there is considerable merit in WWL's proposal to investigate these uses.

The WWL advice is that while progress has been made towards transitioning in July 2010, if it is to achieve full transition by that date it will detrimentally affect the company's ability to investigate interim uses and progress the 2009/10 work programme. It is therefore considered that deferral of the transition to the Council of one year would be appropriate.

The draft waterfront development plan generally reflects WWL's proposed work programme and therefore the WWL position is generally aligned with the officer recommendation. The differences being that WWL propose a transfer date of December 2011 – as opposed to July 2011 as recommended by officers. At this

stage, officers maintain the view that deferral of one year is an appropriate time frame.

The other point of difference is that officers do not support the inclusion of the public toilet at Kumutoto within the 3 year cycle of the 2009/10 Waterfront Development Plan. This reflects the fact that commercial proceeds are not expected to come back into the project in the short term and it is therefore appropriate to defer non-essential public space developments.

The financial assessment is based on deferral of the transition by one year. If this were to be deferred for a defined longer period there would be financial implications that have not been explicitly modelled in this paper.

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Supporting Information

1) Strategic Fit / Strategic Outcome

The Waterfront Development Plan would contribute to the following Council outcomes:

More Liveable – Wellington will be a great place to be, offering a variety of places to live, work and play within a high quality environment.

Stronger sense of place – Wellington will have a strong local identity that celebrates and protects its sense of place, capital-city status, distinctive landform and landmarks, defining features, history, heritage buildings, places and spaces.

More Eventful – Wellington will maximise the economic value from promoting and hosting high-profile events.

More Prosperous – Wellington's urban form, and flexible approach to land use planning in the central city, will contribute to economic growth and prosperity.

2) LTCCP/Annual Plan reference and long term financial impact

C378 Wellington Waterfront Project; A312 Wellington Waterfront Operations; CX131 Wellington Waterfront Development.

3) Treaty of Waitangi considerations

Maori have had a long connection with the harbour and waterfront that continues today. There are several sites of significance for iwi around the waterfront including Waitangi Lagoon and Te Aro Pa.

4) Decision-Making

This is not a significant decision. The decision has been assessed under the decision-making framework of the LGA as appropriate following the consideration of section 79 LGA 2002. It is noted that the decision does not give rise to any inconsistent decisions, and is consistent with the Waterfront Framework.

5) Consultation

a) General Consultation

Consultation will undertaken on the proposal.

b) Consultation with Maori

Representatives from Council's mana whenua Treaty partners – Wellington Tenth Trust and Te Rūnanga o Toa Rangatira were involved in the development of the Wellington Waterfront Framework that underpins the Waterfront Development Plan.

6) Legal Implications

The LGA decision-making framework has been addressed in this paper.

7) Consistency with existing policy

This report is consistent with existing WCC policy on waterfront development.