
WELLINGTON WATERFRONT PROJECT BUSINESS PLAN 2006/07

1. Purpose of Report

The purpose of this report is to present the Wellington Waterfront Project Strategic Plan for 2006-2009 and the Business Plan for 2006/07.

2. Recommendations

It is recommended that the Subcommittee:

- 1. Receive the information.*
- 2. Recommend to the Strategy and Policy Committee that it approves the draft WWL Business Plan for 2006/07 subject to any changes resulting from consideration of Report 4 (Consultation on the draft Waterfront Development Plan).*

3. Discussion

The Wellington Waterfront Business Plan flows from the Waterfront Development Plan, which is also to be considered by the Subcommittee. After consultation on the draft Development Plan, the Subcommittee may suggest changes to both the Development Plan and the Business Plan. Following this process the Business Plan is to be presented to the Strategy and Policy Committee for consideration and approval on 27 July 2006.

3.1. Overview of the Plan

The Wellington Waterfront Business Plan is provided within the updated Strategic Plan, and outlines the work to be carried out for 2006/07. The Strategic Plan provides a more indicative plan for the three years 2006-2009 in the context of the company's assessment of its operating environment.

2005/06 review

In order to provide some context for the 2006/07 business plan, it is worth noting the priorities that were listed in the 2005/06 plan. The business plan for 2005/06 noted that the vision of the Wellington Waterfront Framework would be made real, with the delivery of a number of significant projects as outlined below:

- Area One of Waitangi Park completed within budget.
- Resource Consent lodged for Overseas Passenger Terminal redevelopment.
- Financing, tenancy and construction contract packages finalised for Site 7, Kumototo, assuming no appeal of resource consent.
- Construction of Stage One of Kumototo Public Space (from Synergy Harbourside to north of Steamship Wharf) commenced, assuming no appeals to resource consent.
- Taranaki Street Wharf public space completed.
- Designs completed for buildings in Waitangi Park, areas Two and Three.
- Len Lye water whirler and surrounds completed.
- Construction on Outer-T Hotel to be commenced in the second quarter of 2005/06.
- Progress made on strengthening city to sea connections at Kumototo, Queens Wharf and Frank Kitts Park, and work continuing with Council on its 'boulevarding the Quays' project

A review of the results against plan is undertaken as part of the quarterly monitoring reports to the CCO Performance Subcommittee. Significant progress was made on a number of projects and some of the above targets were achieved.

However, in the case of Waitangi Park, the budget was exceeded and there are still some minor elements of the park to be completed. There were also delays in the development of Taranaki Street Wharf due to WWL appealing the conditions of the resource consent. Mediation between WWL and the boat clubs has progressed well to date giving every confidence that agreement can be reached and the development of Taranaki Street Wharf be progressed.

Progress on the OPT is slightly behind schedule though as detailed in Report 5, a rigorous and comprehensive tendering process was undertaken before WWL selected Willis Bond & Co as the preferred developer. Progress on the Outer-T development has also been slower than anticipated in the 2005/06 business plan.

The planned public space capital expenditure in 2005/06 was \$28.4 million, and the forecast for the year is \$16.5 million. The main differences are a result of Waitangi Park (\$3.0 million overspend¹), Taranaki Street Wharf (\$5.0 million underspend), Kumototo (\$5.0 million underspend) and Queens Wharf Event Centre (\$3.5 million underspend).

¹ The \$3.0m underspend noted here relates to the 2005/06 budget only, and not the whole Waitangi Park project.

Strategic changes

The Framework recommends that implementation aims to offset capital expenditure (on public space development) against revenue (from commercial proceeds), to minimise the financial impact on ratepayers and the risk to the Council. The income should be generated up front where possible. However the Framework also recognises that timing will be impacted by market demand. This concept of ‘matching’ essentially means that the company will receive income from commercial development as it needs funds to pay for public space development, and provides a means of allowing for changing market conditions over time.

In preparing the latest strategic plan, the company notes the following points:

- that the cost of commercial construction remains high and is still increasing, though at a slower rate to last year;
- that project implementation may extend beyond the time period originally indicated. This timescale was never intended to be binding and both Council and WWL recognise the importance of ensuring that the quality of the development is paramount whilst still progressing the project as quickly as possible;
- that there are several indicators pointing towards a slowing of the economy, including labour shortages, decreased tourism and recent interest rate rises;
- that the company will continue to develop and improve financial reporting of each project;
- that the company will continue to develop and improve all internal systems and processes in accordance with best practice, including implementing the Audit New Zealand recommendations and working with the Council Risk Assurance Unit.

Other changes

The draft business plans includes some noteworthy changes from last year which are detailed below:

- in response to a Council request, WWL has consciously tried to smooth its public space capital expenditure over the next three years whilst still taking advantage of market opportunities.
- the cost of the improvements to the Queens Wharf Events Centre has been included, as has the \$2.6m Council contribution to this. This project is outside of the Framework, and was approved by the Council in the 2004/05 Annual Plan. The upgrade therefore increases the total cost of the project, but nets off against the extra Council contribution. It should further be noted that these improvements have changed in scope slightly with the result that the originally estimated expenditure of \$3.5 million has now changed to \$2.6 million. As noted in the development plan, Council Officers will seek Council approval for this scope variation in 2006/07.
- As noted in the draft Waterfront Development Plan, planned development on Taranaki Street Wharf is now scheduled for 2007/08 which will help to smooth capital expenditure over the next three years by offsetting it against revenue.

2006/07 priorities

The top priorities in the 2006/07 business plan are:

- Refurbishment of Shed 13
- Securing lease agreements for Site 7 ground floor tenants
- Construction of Kumototo public space, stage one
- Lodging resource consents for the OPT and Clyde Quay wharf
- Completing the design briefs for the redevelopment of Frank Kitts Park
- Completing the concept designs for Sites 8, 9 & 10
- Completing and opening the Chaffers Dock and Boathouse development

The planned public space capital expenditure for 2006/07 is \$11.46 million, which is a decrease of \$17 million on the previous year's plan. The planned expenditure mainly comprises development on Kumototo stage one, the Queens Wharf Events Centre and Shed 13 whilst deferring work on the Outer-T and parts of Taranaki Street Wharf.

3.2. Financial implications

The Council's contribution, as set out in the original Framework document, is capped at \$15 million. After discussion between Council officers and the company it was agreed that all of the contribution would be capex. Previously some of the Council's contribution was planned as opex, being a contribution towards the operating expenses of the project. However, the gains on sale of commercial development sites have been sufficient to fund the net operating costs. Because the Council's contribution is to be capex, the rates impact will be spread over the life of the resulting assets.

As noted earlier, implementing the Project is expected to extend beyond the timescales originally anticipated. Beyond that point, there is likely to be a net operating cost for the waterfront, including property management and maintenance, which WWL are currently estimating. The LTCCP currently provides for an annual amount of \$1.9 million (inflation adjusted) to allow for the WWL management fee to the end of the project, and for the ongoing maintenance of the waterfront thereafter.

Total Project Cost

The forecast cost of developing public space has decreased compared with the 2005/06 business plan. The decreased public space expenditure of \$24 million is a result of an estimated \$16.5 million public space expenditure occurring in 2005/06 and, in 2006/07 and beyond, approximately \$5 million less being spent on Queens Wharf and almost \$2 million less being spent on the Queens Wharf Event Centre and Frank Kitts Park combined. Decreased Council funding of \$4.9 million for 2006/07 onwards is explained by WWL drawing down \$4 million during 2005/06 and the scope reduction for the Queens Wharf Event Centre reducing the estimated project costs by \$0.9 million.

Public Space Expenditure <i>\$'million</i>	Framework 2001	Business Plan 2005/06	Business Plan 2006/07	(Decrease)
Proceeds from commercial developments	26.3	36.2	31.3	(4.9)
Public space developments	39.2	60.0	35.8	(24.2)
TOTAL	(12.9)	(23.8)	(4.5)	
Council funding	8.0	18.5	13.6	(4.9)
Balance funded from WWL investments	4.9	5.3	(9.1)	(14.4)

Council Funding

As noted above, the contribution required for operational expenditure is nil, with the full \$17.6 million contribution required for capital expenditure. WWL have drawn down \$4.0 million during 2005/06 leaving an estimated \$13.6 million to be spent over the next three years.

Capital Expenditure - WCC		
<i>\$'million</i>	Business Plan 2005/06	Business Plan 2006/07
2004/05	7.0	
2005/06	11.5	4.0
2006/07	-	10.48
2007/08	-	0.0
2008/09		3.12
TOTAL	18.5	17.6

3.3. Risk evaluation

WWL has identified a number of key risk areas that may impact on their operations and it is important that they continue to manage these risks. Of these, progressing projects which attract significant public attention through the design brief and resource consent stages would appear to be one of the most significant. The possible concerns of all stakeholders within the community must be thoroughly researched and addressed accordingly within the project planning.

The delays in development on Taranaki Street Wharf as a result of appealed resource consent conditions and the response of marina berth holders to the OPT design proposal have highlighted the issue of car parking on the waterfront as one of the most significant and challenging issues facing the development of the waterfront. It is essential to manage these risks to ensure that they don't impact on the time required to complete the waterfront development which would ultimately translate into increased cost and, more importantly, to ensure appropriate outcomes are achieved.

It has previously been noted that the construction market is still experiencing a busy period. The availability of supply in the construction market will continue to have an effect on the cost and the timing of completion of projects. The company has to balance the desire to expedite the Framework implementation on the one hand, with a need to achieve the best outcome overall.

From the above it is clear that there are a range of factors that can influence the project timetable which WWL must consider when formulating the annual business plan. This has been further complicated by the Council requirement to smooth capital expenditure over the next three years, putting pressure on WWL to more quickly achieve the commercial returns needed to fund public space development.

4. Conclusion

The draft Business Plan has no significant changes to the planned public space or to the commercial developments though the timing and priorities have changed for a number of the sites. WWL have drawn down \$4 million during 2005/06 and expect to draw down a further \$13.6 million over the next three years, giving a total capital expenditure contribution from Council of \$17.6 million over the life of the project.

The Business Plan recognises that a number of factors can impact on the achievement of the work plan, and WWL as project managers will be working to manage these risks. Whilst it is difficult to predict the speed of projects, WWL have set a more conservative schedule of project targets for 2006/07.

As noted previously, the Business Plan flows on from the Waterfront Development Plan. Both will be presented to the Subcommittee on 26 June and it is acknowledged that any changes to the Development Plan may require a corresponding change to the Business Plan.

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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.

In accord with the 2006/07 LTCCP.

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 report deals with a strategic asset, but does not propose any changes to the development plan.

5) Consultation

a) General Consultation

Consultation will be undertaken on the draft development plan. All affected parties will be included, and any feedback will be reported to the Subcommittee.

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

There are no implications from this report.

7) Consistency with existing policy

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

Appendix 1