
2014/15 ANNUAL PLAN DELIBERATIONS

1. Purpose of report

This report recommends to Council the adoption of the 2014/15 Annual Plan.

This report includes:

- Projects and Programmes Budget (appendix 1)
- Summary of Compliance with Revenue and Financing Policy funding targets (appendix 2)
- Waterfront Development Plan (appendix 3)

The Funding Impact Statement and Prospective Financial Statements will be presented to Council at its meeting on 7 May 2014.

2. Executive summary

The annual plan sets out the Council's programme and budgets for the coming year. The 2014/15 Draft Annual Plan set out a programme that included: investments in cycling and open spaces; the introduction of a living wage rate for council staff; policy changes aimed at stimulating development; sustained levels of service across the board. This was achieved in line with the Council's ratings and borrowing targets.

The Committee is now being asked to confirm the annual plan following consultation. The Mayor has outlined the key issues and changes (in report one of this agenda). These changes are recommended in this report.

Confirmation of these would result in:

- a rates requirement of \$254.2 million, which is the same as the Draft Annual Plan
- an increase that equates to a 2.49% average rates increase
- an increase inline with the forecast Local Government Cost Index increase of 2.50%
- an increase at the limit of the Council's Financial Strategy, adopted as part of the existing Long-term Plan.
- forecasts closing net borrowings of \$404.2million, which is the same as the Draft Annual Plan
- a net borrowing to operating income ratio of 104.6% in line with the 105.0% target set in the Council's Financial Strategy.

The introduction of any additional projects or increases to net operating expenditure budgets, will require an offsetting reduction in the budget currently allocated to another project, or an increase in the rates requirement – to a level above the 2.50% rates limit.

3. Recommendations

Officers recommend that the Governance, Finance and Planning Committee:

1. *Receive the information.*
2. *Agree to the following changes to operating and capital expenditure from the 2014/15 Draft Annual Plan :*

#	New funding in the Annual Plan (arising since the Draft Annual Plan was agreed)	Funding impact for 2014/15 in \$000	
		Opex	Capex
a)	Bring forward budgeted funding for Makara School playground from 2016/17 to 2014/15		47
b)	Reduced interest due to increased Capex carry forward	(346)	
c)	Fund maintenance of the National Memorial Park	150	
d)	Fund free wi-fi in the Central Business District	180	
e)	Reduce planned contribution to the Regional Amenities Fund	(727)	
f)	Increase contribution to the Economic Development Fund	727	

3. *Agree the projects and programmes budget attached as Appendix 1*
4. *Agree that it is prudent for the Council to forecast a surplus as outlined in section 4.2 of this report.*
5. *Agree that the Trade Waste fee changes in section 4.3.1 of this report, are included in the final 2014/15 Annual Plan for adoption by Council.*
6. *Agree the 2014/15 proposed variances from Revenue and Financing Policy funding targets on a range of activities as described in section 4.3.2 of this report, are included in the 2014/15 Annual Plan for adoption by Council.*
7. *Note that the 2014/15 Annual Plan includes revised revenue from Development Contributions for 2014/15, based on the proposed changes to the Development Contributions Policy in report 3 of this agenda.*
8. *Agree the changes to performance measures in section 4.6 of this report for inclusion in the 2014/15 Annual Plan*
9. *Agree the Waterfront Development Plan for 2014/15 attached as appendix 3*

10. *Recommend to Council that it agree to amend the Rates Remission Policy to provide for:*
 - a) *Partial remission of rates for buildings where remedial works result in their removal from the Earthquake Prone Buildings List*
 - b) *Remission of sector based targeted rates on property under development, including property undertaking earthquake strengthening, where these works preclude occupancy of the building*
11. *Agree to include in the 2014/15 Annual Plan a targeted rate totalling \$80,000 to be applied to the commercial rated properties in the Miramar Business Improvement District Area.*
12. *Note that the Funding Impact Statement and Prospective Financial Statements will be included in the 2014/15 Annual Plan for adoption by Council.*
13. *Note that the 'what it costs' statements will form part of the activity statements included in the 2014/15 Annual Plan for adoption by Council.*
14. *Recommend to Council the 2014/15 Annual Plan for adoption based on the 2014/15 Draft Annual Plan and amended as provided for in recommendations 2 – 13 above.*
15. *Delegate the Chief Executive to prepare the 2014/15 Annual Plan document reflecting the decisions of this meeting for consideration at the Council meeting on 7 May 2014.*

4. Discussion

4.1 Proposed variances to the Draft Annual Plan

4.1.1 Key operating income and expenditure changes

The Draft Annual Plan included a number of key funding proposals. There have also been some recommended changes as a result of consultation. The following table outlines these and how they impact on the overall rates requirement.

MOVEMENT IN RATES REQUIREMENT			
Activity	Change	\$000's	%
	LTP 2014/15 rates funding requirement	257,418	
	Draft Annual Plan initiatives:		
2.1	Our Capital Spaces - Community Bio Diversity Pest Mgt & Greening, Smart Connected City and Mountain Bike and Track	258	0.10%
2.1	Kilbirnie Walkway	7	0.00%
2.1	Hazardous Tree Removal	100	0.04%
2.1	Animal Pest Control Funding	49	0.02%
5.1	Our Capital Spaces - Makara Peak Mountain Bike Park	40	0.02%
5.2	Libraries - Literacy Programmes for Children	60	0.02%
5.2	Newtown community hub feasibility	40	0.02%
6.1	Transport planning - Kent and Cambridge bus priority	200	0.08%
6.2	Earthquake strengthening (consent subsidies)	100	0.04%
7.1	Cycleways Improvements	250	0.10%
7.1	Transport Planning RONS additional consultancy for increased work - Mt Victoria Tunnel duplication	100	0.04%
Various	Living Wage	750	0.30%
	Other Draft Annual Plan changes:		
2.3	Water - Monitoring & Investigation	112	0.05%
2.4	Wastewater - Treatment Plants	373	0.15%
2.5	Stormwater - Monitoring & Investigation	105	0.04%
3.1	City Innovation and Economic Growth Strategy	895	0.36%
3.1	Events Fund	532	0.22%
6.1	Inclusion of Wellington Waterfront Limited operating deficit	868	0.35%
7.2	Reduction in parking revenue	450	0.18%
N/A	Airport Dividend increased forecast	(1,800)	(0.73%)
Various	Corporate savings	(1,500)	(0.61%)
Various	Decrease in interest expense	(1,948)	(0.79%)
Various	Decrease in depreciation to be funded	(2,169)	(0.88%)
Various	Decrease in 2013/14 Rates requirement	(2,100)	(0.85%)
Various	Inflation and other movements	748	0.30%
	Additional initiatives:		
5.3	Memorial Park	150	0.06%
3.1	CBD Wifi	180	0.07%
Various	Reduced interest due to increased Capex carry forward	(346)	(0.14%)
3.1	Economic Development Fund	727	0.29%
4.1	Regional Amenities Fund	(727)	(0.29%)
	Annual Plan 2014/15 rates funding requirement	254,268	

Note: For a full list of operating projects proposed for inclusion in the 2014/15 Annual Plan refer to Appendix 1.

4.1.2 Rates increase

The cumulative change in rates requirement results in a lowering of the rates increase from that originally proposed in the Long-term Plan.

MOVEMENT IN RATES INCREASE	
	%
Rates increase from 2013/14 to 2014/15 per LTP (after growth)	3.06%
Movements outlined above	(1.42%)
Decrease in rates requirement for 2013/14 compared to LTP	0.85%
Rates increase per 2014/15 Annual Plan	2.49%

4.1.3 Capital expenditure changes

Capital expenditure proposed in 2014/15 Annual Plan totals \$152.0 million, compared to \$151.9m forecast in the Draft Annual Plan.

The 2014/15 Draft Annual Plan included a number of new capital expenditure initiatives, as follows:

- Changes in project costs – where the forecast cost of undertaking the project has increased or decreased since the Long-term Plan was prepared in 2012.
- Changes to project scheduling – where the timing of projects has been either brought forward or is now forecast to be delivered later than was forecast in the Long-term Plan.
- Deferred projects – where the capital project has been deferred pending consideration as part of the 2015-25 Long-term Plan.

It is recommended that the 2014/15 Annual Plan includes the above changes and one additional change to the capital programme in order to bring forward the Makara model School playground upgrade from 2016/17 to 2014/15. A summary of the changes from year three of the Long-term Plan are listed in the table below.

MOVEMENT IN CAPITAL EXPENDITURE		\$000's
Activity		
	LTP 2014/15 total Capital Expenditure	160,343
	Draft Annual Plan initiatives:	
2.1	Kilbirnie Walkway	280
6.1	Lombard Lane	1,500
6.1	CBD Minor Improvements	100
7.1	Rural Roads Improvements	100
7.1	Seawall Storm Damage	847
7.1	Cycleways Development and Improvements	3,000
	Draft Annual Plan Changes in project costs	
7.1	Roading Capacity Projects - Johnsonville town centre	(994)
Various	Citicare renewals contracts	1,451
6.2	Earthquake risk mitigation (town hall)	2,747
Various	Movement in inflation and other minor changes	(1,824)

	Draft Annual Plan Changes to project scheduling	
5.2	Housing upgrades and renewals	5,954
5.2	Upgrade library computer software	(2,260)
6.1	Wellington Waterfront project	(7,665)
	Draft Annual Plan Projects deferred	
2.2	Southern Landfill Improvement	(6,500)
2.3	Water - Network Upgrades	(3,100)
5.1	Synthetic Turf Sportsfields upgrades - Tawa/Grenada	(1,470)
6.1	Kilbirnie town centre phase II upgrade	(555)
	Additional initiatives:	
5.1	Makara Model School playground	47
	Annual Plan 2014/15	152,001

Note: For a full list of operating and capital expenditure projects proposed as part of 2014/15 Annual Plan refer to Appendix 1.

In addition to the capital expenditure programme above it is forecast that approximately \$32.5 million of projects forecast to be completed in 2013/14 will now be completed in 2014/15. It is likely that this will also place pressure on capital project delivery in the 2014/15 year. Note that for the purposes of forecasting borrowing requirements it is forecast that approximately \$20 million of capital expenditure included in Appendix 1, will not be completed within the 2014/15 year.

Officers note that Council received submissions requesting that Council commit funding to other new capital projects including the redevelopment of the Museum of Wellington City & Sea, the Clyde Quay Boat Harbour Redevelopment and the development of the Ocean Exploration Centre. Officers maintain that Council should not contribute to projects, including any contribution to resource consent costs, until the full business cases have been received and fully assessed.

Officers recommend that the planned increase in this Council's contribution to the Regional Amenities Fund be reallocated to the Council's Economic Development Fund and used to fund proposals using similar criteria to the Regional Amenities Fund. This should provide an appropriate means to support projects further, if the business case for these projects has first been considered by the Governance, Finance and Planning Committee.

4.1.4 Forecast changes to borrowing

The proposed 2014/15 Annual Plan will result in closing debt of \$404.2 million. This is the same as closing debt in the Draft Annual Plan. The current forecast will allow the Council to remain in line with its net borrowing to operating income ratio target of 105.0%.

MOVEMENT IN BORROWING		\$000's
LTP 2014/15 Closing Borrowing		428,931
Movement in capital expenditure (summarised above)		(8,342)
Movement in forecast 2013/14 closing borrowing		(33,885)
Reduction in development contribution income		3,000
Movement in asset sales		(2,000)
Movement in weathertight homes settlements		(163)
Capex forecast to be carried forward 2013/14 to 2014/15		32,500
Capex forecast to be carried forward 2014/15 to 2015/16		(20,000)
Other movements (net)		85
Funded from prior year surplus		
Economic development fund		3,554
Waterfront interest expense		559
2014/15 Annual Plan Closing Borrowing		404,239

4.2 Explanation of the Council's Net Surplus

The proposed Annual Plan shows a budgeted surplus of \$26.3 million. The majority of this surplus is due to the \$42.5 million of income that the council is forecasting to receive from third parties to pay for capital expenditure. As a result these funds are not available to offset rates. This is offset by \$19.6 million of operating expenditure (depreciation) which is not funded as per the Council's Financial Strategy. Other items impacting on the forecast surplus include:

- items where the council is rating for repayment of debt (e.g. weathertight homes)
- items where operating expenditure is proposed to be funded from prior year surpluses (e.g. Economic Development Fund)

EXPLANATION OF SURPLUS

\$000's

Depreciation not funded under section 100 of LGA:

NZTA Transport funded projects	(7,857)
General	(4,000)
Clearwater sewerage treatment plant	(3,226)
Decommissioned Living Earth joint venture plant	(235)
Wellington Waterfront Limited Depreciation	(4,294)
Total expenditure not funded under section 100 of LGA	(19,612)

Revenue received for capital purposes

NZTA capital funding	11,194
Housing ring-fenced surplus/(deficit)	(3,427)
Housing capital grant	32,036
Development contributions	2,000
Bequests, trust and other external funding	749
Total Revenue received for capital purposes	42,552

Items funded from prior year surpluses

Wellington Waterfront Limited interest	(559)
Economic Development Fund	(3,554)
Total items funded from prior year surplus	(4,113)

Additional items

Self-insurance	750
Weathertight Homes funding	6,662
Waste minimisation activity	94
Reserves purchases and development fund	(24)
Total additional items	7,481

Total Surplus	26,308
----------------------	---------------

4.3 Funding Variances

4.3.1 Fee Changes

The only fee change proposed is for Trade Waste fees, required to maintain policy compliance. The Wellington Trade Waste Bylaw 2004 expects full cost recovery from trade waste customers and the Council is moving towards this in a staged approach as part of its Long-term Plan. The changes are set out below:

Annual Licence For Registered Premises	Current Fee	Proposed Fee
Conveyance & Transport of Trade Waste		
Volume		
Up to 100m ³ /day	\$0.26/m ³	\$0.27/m ³
Between 100m ³ /day and 7000m ³ /day	\$0.12/m ³	\$0.13/m ³
Above 7000m ³ /day	\$0.83/m ³	\$0.85/m ³
B.O.D		
Up to 3150kg/day	\$0.28/kg	\$0.29/m ³
Above 3150kg/day	\$0.63/kg	\$0.64/m ³
Suspended Solids		
Up to 1575kg/day	\$0.27/kg	\$0.28/m ³
Above 1575kg/day	\$0.51/kg	\$0.52/m ³

4.3.2 Revenue and Financing Policy - Compliance summary

The costs, income and funding requirements for each of the Council's activities are reviewed annually to assess compliance with the funding targets set out on the Revenue and Financing Policy relating to the proportion of each activity to be funded from rates versus user fees and other income.

The focus of the annual review is on addressing areas where there are variances with the Revenue and Financing policy. Listed below are the activities for which officers recommend a variation from the policy target for 2014/15. For these activities officers consider that the targets are appropriate but that for specific and acceptable reasons full compliance is unlikely to be achieved in 2014/15.

Review of the policy and the funding targets for each activity is planned to be completed as part of the 2015-25 Long-term Plan.

The following activities require a higher proportion of rates funding for 2014/15 than targeted in the policy:

- 4.1.3 Arts and Cultural Festivals
- 5.1.3 Sports fields (Synthetic)
- 5.1.8 Golf Course
- 5.3.5 WREMO
- 7.1.1 Transport Planning

The following activities require a lower portion of rates revenue funding for 2014/15 than targeted in the policy:

- 1.1.3 City Archives
- 5.1.4 Recreation Centres
- 5.1.9 Recreation Programmes
- 5.2.6 Community Centres & Halls
- 5.3.3 Public Health Regulations
- 2.1.4 Roads Open Spaces
- 2.1.8 Biodiversity (pest management)
- 6.2.1 Building Control and Facilitation
- 7.1.2 Vehicle Network
- 7.1.3 Cycle Network
- 7.1.6 Network-wide Control & Management

Further information on each activity listed is included in Appendix 2.

4.3.3 Development Contributions Revenue

It is expected there will be a reduction in Development Contributions revenue for 2014/15 from \$5 million to \$2 million. This change incorporates all of the policy changes recommended in Report 3 and also includes a reduction due to lower current Development Contributions revenue compared to the current budget. The changes in funding are reflected in the net borrowings.

4.3.4 Targeted Water Rates

The water distribution network, collection and treatment activity is fully funded through the targeted water rate. The targeted rate for water is apportioned with the aim of achieving a 60 percent: 40 percent split between properties incorporated under the Base differential and the Commercial, Industrial and Business differential in accordance with the Revenue and Financing Policy.

Based on the 2014/15 Annual Plan there is an overall increase in expenditure of 4.1% across the water activities. This is largely driven by an increase in the depreciation charges as a result of the 3 yearly infrastructure revaluations, and the corresponding increase in interest allocations due to the larger asset book value. Officers have reviewed the cost increases in this activity and recommended the following increases to the rating mechanisms for 2014/15:

Targeted Water Rating Mechanism	Current (excluding GST)	Proposed for 2014/15 (excluding GST)
Water consumption charge for properties with a water meter	\$1.797 per cubic metre	\$1.870 per cubic metre
Annual administrative charge for properties with a water meter	\$107.50	\$111.90
Fixed charge for base (residential) sector properties without a water meter	\$132.25	\$137.70

The balance of the recovery will flow through the base (residential) water rate levied via a rate per dollar of capital value.

4.4 Key Policy Changes

4.4.1 Rates Remission

The Draft Annual Plan proposed to widen the current rates remission for buildings under construction and also introduce a further rates remission after seismic strengthening, as follows:

- Rates Remission during strengthening works – This remission during strengthening works is proposed to apply if the building is unable to be tenanted and represents an extension of the Downtown Levy Targeted Rates on Property Under Development Policy
- Rates Remission after seismic strengthening – This remission will delay the impact of any post strengthening valuation increases on rates for a period of 3 years.

Officers recommend that these proposals are implemented and the Rates Remission Policy is amended.

4.4.2 Miramar Business Improvement District– Targeted Rate

A targeted rate, to be applied to the commercial rated properties in the Miramar Business Improvement District area was included in the Draft Annual Plan, to give effect to the application from Enterprise Miramar Peninsula Inc for a targeted rate under the Business Improvement District policy. The new rate will be incorporated into the Funding Impact Statement for the 2014/15 Annual Plan.

4.5 Waterfront Development Plan for 2014/15

The 2012-22 Long-term Plan includes the 3 year Waterfront Development Plan. The Draft Annual Plan included the 3rd year of that plan and noted the variances from year three of that plan to take account of changes to the programme of work since the plan was agreed in June 2012. The Proposed Waterfront Development Plan for 2014/15, is largely the same as that consulted on with minor changes recommended by Officers to reflect ongoing work in the Queens Wharf and Frank Kitt Park precincts, and to also to update the plan to record that the implementation of the Waterfront Project will be undertaken by Council from 1 July 2014. The proposed Waterfront Development Plan is attached as appendix 3.

4.6 2014/15 Projects and Programmes

The planned Projects and Programmes for 2014/15 are itemised in detail in Appendix 1.

4.7 Performance Measures

Reporting on how we are performing against our long-term and annual plan measures, is an important part of our the organisation's accountability to elected members, and the Council's accountability to the public. While significant changes are usually made at the time of a long-term plan, officers are proposing that the following minor changes are agreed for inclusion in the final 2014/15 Annual Plan; in addition to those agreed for inclusion in 2014/15 Draft Annual Plan. These additional changes are recommended in response to submissions received during consultation on the draft plan.

Activity	Activity name	Measure	2014/15 Target	Rationale
7.1	Transport	Road casualties (per 10,000 population): vehicles	Reduce	Target changed from 'Maintain or reduce' to 'Reduce'. This removes the notion Council endeavours to maintain a certain level of casualties. However, officers believe the measure itself should remain as an indicator of increasing transport safety
		Road casualties (per 10,000 population): pedestrians	Reduce	
		Road casualties (per 10,000 population): cyclists	Reduce	

In the final plan, officers will also make some changes to how measures are expressed in the document so that they more accurately communicate the intended measure. This will be an editorial change rather than a change in the measure itself. For example, as recommended by Council's Environmental Reference Group, under 'Measuring our performance' under 7.1 Transport, "37% of residents take the bus to the central city on weekdays" will be reworded as "37% of residents who travel to the central city on weekdays take the bus".

5 Funding Impact and Prospective Financial Statements

The Funding Impact Statement and Prospective Financial Statements will be included in the 2014/15 Annual Plan for adoption at Council.

6. Conclusion

This report provides for the recommendation of the 2014/15 Annual Plan to Council.

Contact Officer: *Martin Read – Manager Financial Strategy and Planning*
Martin Rodgers – Manager Research, Consultation and Planning

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

This report proposes the 2014/15 Annual Plan to deliver on the Council's strategic outcomes.

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

Development of annual plans forms part of the Council's broad planning obligations under the Local Government Act. Specific funding for the development of the plan and the consultation process sit under project: C530 Annual Planning and Reporting.

3) Treaty of Waitangi considerations

Targeted consultation will be undertaken with iwi as part of the Annual Plan process using existing relationships and channels.

4) Decision-making

This report recommends the 2014/15 Annual Plan to Council for consultation.

5) Consultation

a) General consultation

Subject to approval by Council, the variances proposed and decisions made on this report will be consulted on with the community through the 2014/15 Annual Plan statement of proposal.

6) Legal implications

This report meets all statutory requirements under the LGA.

7) Consistency with existing policy

This report is consistent with Council policy. Specific changes to Council policies recommended within report will be consulted upon as part of the Annual Plan consultation process.