Tabled Information - Reference 026/12C(a)

Schedule A

Moved as part of amended substantive

Agree that the following wording be included in the 2012-22 draft long-term plan statement of proposal

Matter for inclusion	*Where*	*Information to be included in the 2012-22 draft long-term plan*
Renewal options	Under 'balancing our budget in the summary and executive summary	***What are asset renewals:*** Assets are things Council uses to provide its services and activities. They include buildings, machinery, vehicles as well as pipes, roads, sports fields, library books and computer systems. An asset renewal is when you replace an asset, or section of a network of assets, because you know it has come to the end of its useful life. This is a capital cost, but it does have an impact on operational costs. As we usually borrow money to do the renewal then we have to pay interest. We also budget a certain amount each year to fund the future replacement of an asset (called depreciation) at the end of its life. The longer we know the asset will 'last' the lesser the annual depreciation and borrowings we will need to budget for. A renewal is not maintenance. Maintenance happens when an asset stops working the way it should and part of the asset has to be fixed or replaced. This is an operational cost, which is paid for from rates, fees or other income. We carefully assess when an asset is coming to the end of its life and decide whether to completely replace it (a renewal) just before it breaks down or continue to maintain it if it is prudent to do so. It can be very expensive, and sometimes dangerous, if we don't renew assets at the right time. For example, painting a building or resurfacing a road at the right time protects it from getting damaged underneath. If the wood of a building or base of a road gets damaged then it costs a lot to replace it. In terms of our water and wastewater pipes underground, if they break before we renew them they can cause a lot of damage to the area around them and if a sewer pipe breaks then it can cause health problems. It would not be prudent if we allowed this to happen. ***How we manage renewals:*** To manage our assets we have developed asset management plans (AMPs) for all the groups of assets we own. We also have systems to track the age and performance of each asset. These plans describe all the assets, how long we think they will last (often according to best practice and international standards) and what we will do when they need replacing. You don't always have to replace an asset at the end of its life. We may decide we do not need it to provide services anymore or decide to replace it with something that provides more or a different service. This is called a change in the level of service. Summaries of our asset management plans can be found on our website.

According to our AMPs the cost of renewing our assets for the first seven years of this long-term plan has increased by $82 million between our old long term plan (2009-19 LTCCP) and this new draft plan. A lot of the increase occurs in the last three years of our new draft plan (that is 2019 to 2022).

This increase is the result of many things including:

- our Community Housing. We are currently modernising our housing complexes. This is mainly funded from the government and not ratepayers.

- our three waters networks. Big sections of the network that were built in the early 1900s are coming to the end their useful lives. We are also given new water assets when new land is developed.

- our transport assets. Similarly the costs of asset replacement are heavily influenced by the cost of materials and international trends of commodities such as bitumen which has an increased on average by over 8% in the last three years.

- our information technology systems. Many of these are out of date and need replacing.

- our waterfront assets. Those that were developed over the last 20 years are coming to the end of their lifecycle.

We never just replace something when the plan says we should. We always inspect the asset when it is coming up for renewal to make sure it does need replacing. We then decide what we need to replace first and what we can replace later than planned because it is still in adequate condition. We do these inspections up to three years before the renewal is due depending on the type of asset.   However, we do not specifically inspect all assets that we plan to replace beyond three years. Rather we estimate when they will need replacing based on the international standards and budget for that.

We want you feedback:
There are options around how we budget for our renewals and we want to hear your views.
We have reviewed our renewals budget to assess the risks of not spending as much on renewals over the next ten years as our AMPs say we should. The review estimated that we could spend $26 million less on renewals than we have budgeted for over the ten years of this draft plan. We have assessed the risks of making these changes as low or moderate. We would like your feedback on three options we are considering as a result of this review.

We have not included this reduction in this draft plan. We want to hear your views and then councillors will decide whether they will make changes when they finalise the plan in June.

		How we did the review: Using the New Zealand Standard for Risk Assessment, we identified the likelihood of a risk occurring (on a five point scale form 'rare' to 'frequent') and the consequence of the risk (on a five point scale from 'insignificant' to 'catastrophic'). The types of risk considered include loss of life or harm, financial loss, damage, potential litigation and loss of reputation. Our assessment identified that, for a significant proportion of our asset renewals (74%), the risks of not doing them would be extreme or high. We are therefore not proposing to stop planning and budgeting for those renewals. For example, we are not proposing to reduce of budgets to replace our water, wastewater or sewerage pipes because we think the risks from doing this would be too high. We already spend 7% of our budget in these areas on doing unplanned repairs because of breakdowns in the network. This shows that we are not renewing all our pipes at before they breakdown which is what we aim to do. However, we did identify ways we could reduce our spending on the renewal of some asset, which would result in low or medium risks. Here are examples of the actions we could take: <u>Defer a renewal or extend the life of an asset:</u> This means not doing a renewal when planned but doing it later, or deciding that as asset will last longer than planned. For example, we have identified that we could put off painting the internal areas of our recreation centres. This would be lower risk because it would not cause damage to the building in the immediate future but the centres would not look as fresh. Doing this would mean we would not have to spend $60,000 over the ten years of this plan. Other examples of deferrals include: • replacing carpets in branch libraries and Council's administration building later than planned ($1,089.000 over 10 years), • not replacing our library computer system ($2,229,000), • not renewing flag poles at the Michael Fowler Centre and our emergency centre ($101,000) • put off extending the southern landfill because of our planned partnership with Porirua City Council and our waste minimisation initiatives. This would mean not budgeting for $2,650,000 in 2021/22 of this draft plan. • Spend less on renewing our sports fields and walkways in our parks over the 10 years of the plan ($1,313,000) <u>Change the service level:</u> Our AMPs (and this draft plan) is built on the basis of what we think is the right level of service we think we should provide. For example, how far people should have to travel to a playground or library, how long people should have to wait to take out a popular library book etc. We could reduce

how much we spend on renewals by reducing the level of service we provide in some areas. Examples of this include:

- Doing less renewal work on walls, tunnels and bridges. This will mean we can spend $1,800,000 less but may result in minor inconvenience in some locations due to erosion, subsidence and potholes.

- Not renewing our parking equipment to take advantage of new technology ($1,029,000).

<u>Disposing of assets:</u>
This involves deciding that we no longer need an asset and so we no longer budget for its replacement. For example, we propose to not replace the Bier Lift at the Karori Crematorium because we do not think we will need it in the future. This will mean we do not have to spend $98,000 in 2013/14. Other examples are:

- Outsource our landfill operations which would mean Council no longer needs to own and replace plant ($3,271,000)
- Not replace the MS Portfolio / Project Server that enables us to manage our work in the transport area ($1,433,000)

Impacts of reducing our renewal budgets:
There are a number of impacts associated with this decision that we would like you to take into account when giving us feedback.

<u>Financial (positive):</u>

- We have estimated that we can reduce our capital expenditure on renewals by $26 million and that this will have low or medium risks. Please note that this is an initial assessment of risk and we will do more work on this during the consultation period for this draft plan. We will then be able to provide more information to councillors by the time they make final decisions on this plan in June. We have not made the reductions in our budget yet.

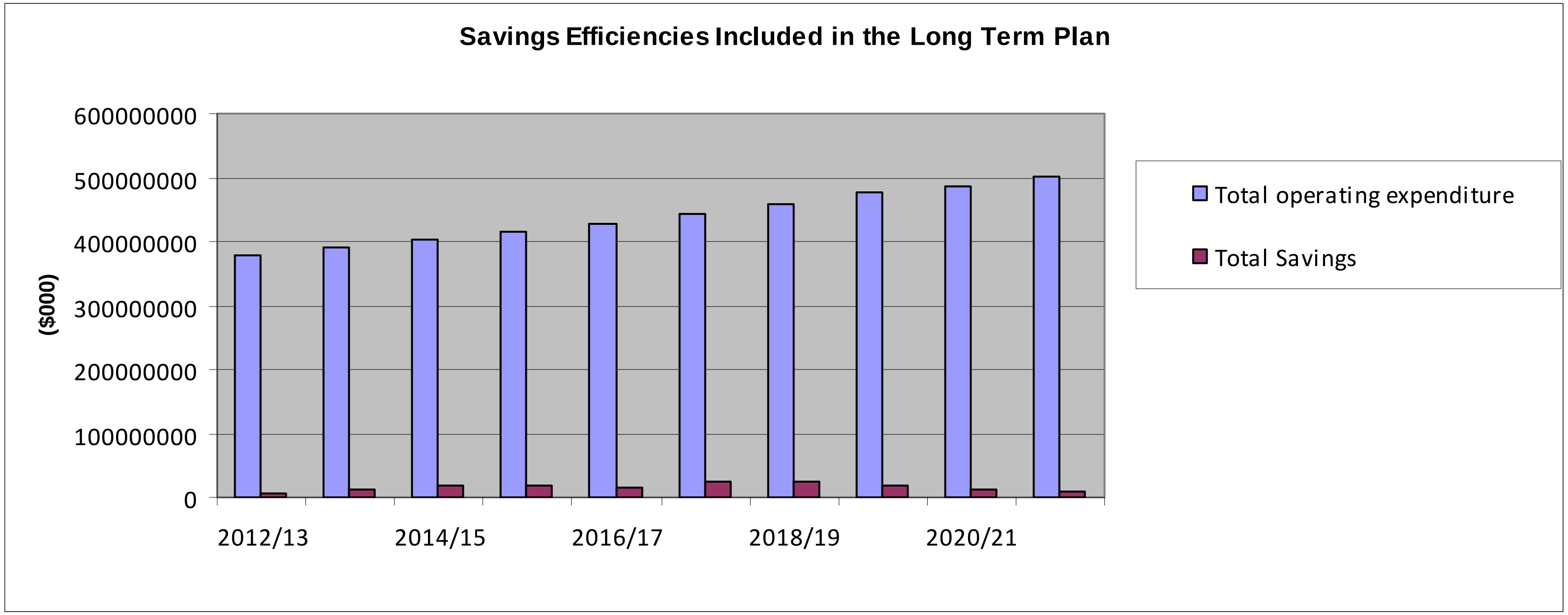
- By not borrowing this money, we will reduce how much we pay in interest depending on when the reduction in spending occurs.

<u>Financial (negative):</u>

- It is possible that we will need to spend more on maintaining assets if we do not renew them at the right time. This will have an impact on our operating costs and may mean that we overspend budgets because the maintenance was unplanned.

- If assets fail and we have to replace them, the cost of doing this could be higher than if we had renewed them before they failed.

		Other: As noted above, there are a number of other risks from not undertaking these renewals. We are not proposing to reduce renewals in ways that will result in harm to people, major financial risks or risks of litigation. The most common risk is that our facilities will not look as fresh or we may no longer provide services to the level we have previously, as in the examples above. **Options for you to consider:** We would like to hear your views on three options in relation to this issue. Option 1: We continue with the planned expenditure on renewals contained within this draft plan. This will total $860 million over the next ten years. This will mean: • we do not make any of the changes outlined above. • we do not anticipate any more risks than those already taken into consideration in this draft plan. • no impact on the rates you will pay as outlined in this draft plan. However, other decisions made when the plan is finalised may have an impact. Option2: We only make reductions to our renewals budget over the ten years of this plan that result in low or medium risks. This will mean: • we need to borrow less over the ten years of this plan, and as a result; • we will pay less interest, and consequently; • your rates reduce. However, other decisions made when the plan is finalised may have an impact. • we have increased financial capacity to borrow money to respond to an issue, if the need arises. Option 3: We only make reductions to our renewals budget over the ten years of this plan that result in low or medium risks. This will mean: • we are able to spend money on new assets that, at present, we cannot afford to do without breaching our limits and policies.

		• our borrowings will remain the same as set out in the draft plan. • your rates will remain the same as outlined in this draft plan. However, other decisions made when the plan is finalised may have an impact. • a likely increase in operating costs in the future due to increased levels of depreciation and other operating costs which result from owning new assets. We would like to hear you views on the above issues and an indication of which option you think we should take. You can do this by completing the submission form for our draft plan.
Additional detail around efficiencies	Statement of Significant Forecasting Assumptions	

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<tr><th></th><th>2012/13 ($000)</th><th>2013/14 ($000)</th><th>2014/15 ($000)</th><th>2015/16 ($000)</th><th>2016/17 ($000)</th><th>2017/18 ($000)</th><th>2018/19 ($000)</th><th>2019/20 ($000)</th><th>2020/21 ($000)</th><th>2021/22 ($000)</th></tr>
<tr><td>Total Operating expenditure</td><td>378,735</td><td>390,273</td><td>402,021</td><td>414,320</td><td>429,220</td><td>443,304</td><td>459,718</td><td>475,655</td><td>487,274</td><td>500,043</td></tr>
<tr><td>Total Savings</td><td>6,700</td><td>12,973</td><td>17,417</td><td>18,550</td><td>15,448</td><td>25,162</td><td>24,669</td><td>19,408</td><td>11,191</td><td>9,808</td></tr>
<tr><td>Savings to Find as a % Operating Expenditure</td><td>-2%</td><td>-3%</td><td>-4%</td><td>-4%</td><td>-4%</td><td>-6%</td><td>-5%</td><td>-4%</td><td>-2%</td><td>-2%</td></tr>
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Note: Discussion around efficiencies in the summary, executive summary will be updated to include a page reference to the updated Significant Forecasting Assumptions for more information.
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<td>Further detail around efficiencies</td>
<td>Summary and executive summary (under balancing our budget) and activity statement 2.6 Conservation attractions.</td>
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• Other potential efficiencies and savings

In additional to the efficiencies and savings listed above we will:

- look further at efficiencies from CCOs - from cost sharing of back office functions to further consolidation

- monitor the leaky home liability and this may enable a lower funding requirement which could result in reducing the impact down from 0.75% of rates additional funding each year

- review our exposure to interest rates - there may be potential for further hedging to occur to reduce our cost of capital in the out-years.

• ECO City – a new trust to manage Zealandia, the Zoo, the Botanic Garden and Otari-Wilton Bush.

We’re proposing to establish a Council Controlled Organisation to manage manage Zealandia, the Zoo, the Botanic Garden and Otari-Wilton Bush. Together these places tell Wellington's story of caring for the natural environment. The new model would cost $1.3 million to set up and run over the next three years. The establishment of ECO City will provide greater efficiencies by allowing them to share services such as finance, IT systems and marketing and facilities management. There will also be better opportunities for destination marketing, membership systems and cross-selling to visitors and members - and it can all be promoted locally, regionally and internationally through the Council's marketing arm,
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		Positively Wellington Tourism. It is a draft proposal and the above funding is not included in this draft plan. A separate and concurrent consultation is being run on this proposal and the other options that were considered. Once a new governance structure is agreed in June, funding will be included in the final plan. See our website for more information this proposal.
Statement about reliability of data	Statement of Significant Forecasting Assumptions	• Reliability of data - We're continuing to improve our asset information – including condition information - to give greater certainty to our forecasts.
Additional information on Chest Hospital and SPCA	Summary and executive summary (under balancing our budget)	We considered spending $879,365 in capital costs and $320,000 in operational costs to earthquake strengthen and refurbish the outside of the buildings to a standard where a tenant could occupy it. The SPCA has a current option to tenant this building. We decided not to commit to this expenditure at this time. However we will continue to talk to the SPCA to develop other options including possible sale of the building to the SPCA or the SPCA funding the necessary building works that may enable them to occupy the building for their day to day business activities
Funding for Zealandia preferred option – Option 4	Summary, executive summary and relevant financial tables	Include the description of Option 4 (ECO – City CCO) and consequential funding of a grant of $1.338m over three years.